LifeGuide Series

Buying A Home

USAA®

The USAA Educational Foundation

Good Information for Good Decisions.

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Develop A Road Map

Home ownership is often regarded as part of the "American Dream." It is a symbol that you have made it — that your life is secure.

Buying a home is also the largest purchase most people will ever make. Consumers tend to know more about buying clothing, electronics and even vehicles than about buying a home. Few are prepared to deal with the complex decisions it brings.

Remodeling an existing home may also be an option. If you are weighing the possibility of remodeling your present home in lieu of buying a different home, you may wish to read The USAA Educational Foundation booklet, *Building Or Remodeling* (#560), before making a final decision. For more information, see "Research Hints" on the inside back cover.

What should you know before launching a home-buying campaign? First, you need a carefully prepared plan — a road map which will help you anticipate possibilities and pitfalls. Whether you are a first-time buyer or seasoned veteran, this booklet will help you decide what you want, find it, examine its value and negotiate for the price and terms with which you can live.

Consumers tend to know more about buying clothing, electronics and even vehicles than about buying a house.

Should You Rent Or Buy?

Base your decision to rent or buy on your own research and the advice of a personal financial adviser. To evaluate whether renting or buying is best for your family, consider some of the pros and cons of each choice:

Price Trends

Compare your cost of renting versus your total homeowner's costs. Renters may profit more by placing would-be mortgage money in other low-risk investments. However, buying a home usually earns high marks as a form of forced savings.

Taxes

Owning a home can help you qualify for deductions on your federal income tax. Today, a single buyer with a $70,000 taxable income can save 31 cents (a married couple can save 28 cents) in taxes for every dollar paid in mortgage loan interest. Once you have built up the equity in your home, you may be able to borrow against it and itemize the interest deduction on your return. So, even if you are considering monthly rent payments that are lower than a mortgage payment, remember to include homeowner tax savings when calculating total costs.

Capital Gains

Homeowners may exclude up to $250,000 of the gain ($500,000 for married couples filing a joint return) from the sale of a principal residence occurring after May 6, 1997. You are not required to reinvest the sales proceeds in a new residence to claim the exclusion. You must have owned and used the home as a principal residence for a combined period of at least two years out of the five years prior to the sale. If you have not used the home you are selling as your principal residence for two years, you may be able to take a prorated amount of the exclusion under certain circumstances. These may include a change in health, employment or military assignment. Taxpayers who sell their home at a loss have no deduction. Check with your accountant for details.

FACT: Owning a home can help you qualify for deductions on your federal income tax.

Frequency Or Timing Of Relocation

Unless you stay in your home for four to five years, you may not get enough of a return to pay the costs of buying and fixing up a house. Frequent movers, including military families, are sometimes better off investing the amount saved on monthly payments — plus their down payment — in a combination of low-risk investments. In an inflationary market, you may recoup your initial investment, even if you move within the first four years, through market value appreciation.

Military Separation

If you are separating from the military, renting a home for a year or two may be a better option for you than buying. Renting can help you save resources during a transition or job search. In addition, you should be aware that securing a mortgage may be difficult if you are leaving the military and are between jobs or have obtained a job in a new profession. Most lenders look for length and stability of employment when considering mortgage approval.

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Goals

Perhaps the most important step in buying a home is defining what you want. Your goals might seem obvious — maybe your growing family needs a larger home — but do not stop there. Sit down with the entire family and spend plenty of time talking about your dream home.

Balancing Needs And Wants

Start by thinking about your present home and making a list of which features you would like repeated in your new home. At this point, nothing is too obvious or too trivial to include. The work sheet on Pages 15-16 can help you make this list.

Next, envision your new home and try to build it in your mind. Where would you like to locate it? Does it have more bedrooms than your present home? Do you want a fireplace or perhaps a study? Would you prefer a gas or electric stove?

Take the list you have created and divide it into "needs" and "wants." The needs list will narrow your search by focusing on those homes meeting your most important criteria. Your wants list will help you choose among the remaining possibilities.

As you discover more about the housing market, you may have to rethink your two lists. If housing is scarce in your desired location, you probably will need to pare down your wants list, unless you are willing and able to maximize your dollar investment, whether through cash or a mortgage. If it is a buyer's market, you can widen your wants list and be more selective.

What Can You Afford?

Setting a price range in advance will help you find the right home sooner. You can avoid the disappointment of looking at homes that are unaffordable. Since it is likely you will finance the purchase of your home, the amount of mortgage loan for which you can qualify will determine your upper price limit.

Lenders base mortgage loan decisions on a number of factors. These include your income, level of debt, credit history and the amount of down payment you will be making. A down payment is money you agree to pay, usually in a cashier's check, at the time of purchase. Your down payment will probably affect your price range because the loan amount is based on the purchase price minus the down payment, if any.

FACT: Most conventional loans require 3 percent to 10 percent of the sales price as a down payment.

Most conventional loans require 3 percent to 10 percent of the sales price as a down payment. Conventional loans are not guaranteed or insured by the federal government. Government-backed loans include those insured by the Federal Housing Administration (FHA). These loans generally require down payments of as little as 3 percent to 5 percent of the sales price and are available in all 50 states. FHA loan amounts vary regionally and are higher in Alaska and Hawaii than in the rest of the country. If you have VA entitlement, you may be interested in loans guaranteed by the Department of Veterans Affairs (VA). These loans offer up to 100 percent financing and loan amounts which generally are higher than FHA. Both FHA and VA maximum loan amounts and guidelines change periodically.

Lenders consider several variables when qualifying you for a mortgage loan. For example, on conventional loans, your new mortgage payment generally should not exceed 28 percent of your gross monthly income. All monthly debt obligations, including your mortgage payment, should not exceed approximately 36 percent of your combined gross monthly income.

These ratios are not as ironclad as they once were. Today, some new buyers with good credit, adequate assets and an above-average down payment can qualify for a mortgage loan with higher debt ratios.

The following work sheet will help you estimate your qualifications for a conventional loan. For FHA and VA work sheets, contact the respective agencies or lenders participating in FHA and VA programs.

Calculating Your Monthly Debt Ratio

Use this work sheet to find your approximate housing and debt ratio. The 28 percent and 36 percent ratios are guidelines to use in helping to determine how much your home payment (including taxes, insurance and mortgage insurance) can be, considering your monthly debts. Based on your credit ratings, amount of your down payment and assets after closing, you may exceed the standard 28 percent and 36 percent ratios.

1. **Determine your gross monthly income for both borrowers**
   Multiply the hourly rate by hours worked per week. Then multiply this result by 52 and divide by 12.
   Or, multiply the weekly rate by 52. Then divide this result by 12.
   Or, multiply the biweekly rate by 26. Then divide by 12. ________________

2. **Determine an approximate home payment for principal, interest, taxes and insurance (PITI)**
   Multiply amount on line 1 by .28 ________________

3. **Determine an approximate home and debt payment**
   Multiply amount on line 1 by .36 ________________

4. **Determine your total monthly obligations**
   (not including current housing expenses such as mortgage or rent)

   a. Auto loan/lease payment ________________

   b. Student/other loans ________________

   c. Credit cards — minimum monthly payment ________________

   d. Installment debt ________________

   e. Child support/alimony payments ________________

   Total monthly debt
   Add lines 4a through 4e ________________

5. **Add total amounts of lines 2 and 4**
   This total should not exceed the amount on line 3 ________________

Targeting Neighborhoods

Find a good city map and the classified ads section of your local newspaper. Then you can begin surveying potential neighborhoods. Start by reviewing the amenities, price and location of prospective homes in the "for sale" section of the real estate ads. Remember the golden rule of real estate: "The three most important considerations about real estate are location, location and location." You are not just buying a home, you are buying a neighborhood. It is much easier to fix up a home than to fix up the neighborhood. With this in mind, select a dozen homes from the ads, then visit them. The idea here is not to find "the" home, but to get to know various areas.

To help in your search, consider contacting a licensed real estate agent, especially if you are new in town. (See Pages 9-12 for tips on selecting a real estate agent.) With the real estate agent's help, tour parts of the city that best suit your family's needs. Consider the proximity to:

- Work
- Schools
- Shopping
- Recreational facilities
- Hospitals
- Churches
- Public transportation stops

You are not just buying a home, you are buying a neighborhood.

Inquire about the crime rates in various parts of town and in specific neighborhoods in which you might be interested. Ask the local police department if it furnishes comparative statistics.

If you have school-age children, research local school districts. This will be easier if you have crystallized your definition of a good district and understand your children's individual needs.

Even if you do not have school-age children, do not overlook school district boundaries as you evaluate residential neighborhoods. This factor may figure prominently in the resale value of your home. A good time to inquire about the local school system and other concerns is when you begin visiting each neighborhood.

Use your family's needs and wants list and a rough price range to identify neighborhoods which align with your requirements. Then drive — or even walk — through each. When you meet homeowners, introduce yourself. Ask what they enjoy about the area and if they are aware of anything that might influence your decision. Residents can tell you more about an area's pluses and minuses than anyone.

FACT: A good time to inquire about the local school system and other concerns is when you begin visiting each neighborhood.

Selecting A Real Estate Agent

Most people look to real estate agents for home buying help. A real estate agent can help you target suitable neighborhoods and tell you which homes are available, what they cost and for how much the surrounding homes have recently sold. Good real estate agents can help you assess your financial situation and manage the various details of your purchase.

All real estate agents must work under a principal broker's license. A real estate broker is a person, corporation or partnership which sells, buys or negotiates the purchase, sale or exchange of real estate for others. A real estate broker must have a broker's license. Brokers may work independently or contract other agents to work with them. Most states require several years of experience to qualify for a broker's license.

A real estate agent becomes designated as a REALTOR® through membership in the National Association of REALTORS,® a state association and the local Board of REALTORS.® Real estate agents with the REALTORS® designation are pledged to a strict Code of Ethics and Standards of Practice. A REALTOR® may have access to the Multiple Listing Service (MLS), a local computerized database of for-sale homes, unavailable to the general public. Through the MLS, a REALTOR® can give you a detailed printout on each home you plan to consider even before you visit the property.

Chances are, you will get to know a real estate agent very well during your search. Unless you use a buyer's agent, however, this does not make that individual your real estate agent. Sales commissions traditionally are paid by the home seller.

That does not mean that traditional real estate agents will mislead you. The law and the REALTORS'® Code of Ethics require that you be treated honestly and given full disclosure of all facts about the property that might affect your decision to buy. It does mean that you should not tell the listing or selling agents everything. If you offer to buy a home for $80,000, for example, but tell the selling agent you are willing to pay $85,000, the selling agent may be required to pass that information along to the seller. You will probably end up paying $85,000.

In contrast, a buyer's agent works under contract to you, the buyer. But since a home's asking price often includes the commission, this service may not cost you anything extra. Buyer's agent is a relatively new concept and the terms and conditions vary by state. In some states you may be required to sign an exclusive contract with the buyer broker. Look carefully at the reputation and track record of firms you are considering and ask for references.

With both traditional real estate agents and buyer's agents you will be offered a full professional explanation of real estate procedures. All real estate agents are obligated to disclose any known material defects of a property. The difference is in where the real estate agent's loyalty is placed: A buyer's agent works for the buyer and the traditional agent works for the seller.

If you should choose a buyer's agent, you will be asked to sign a fee contract prior to viewing property. Contracts vary greatly and so do forms of payment. Some contracts may specify that you owe a commission to the buyer's agent even if you should purchase through another real estate agent. The commission may be paid the same way as for the traditional real estate agent: from the seller's proceeds at closing. In other instances, the commission or fee may be paid all or in part by the buyer.

Some states have also adopted an agent status known as "intermediary" or "facilitator," which has a much more limited scope of authority than other real estate agents. Because state laws regarding real estate agents' responsibilities and obligations vary widely, question real estate agents and firms closely about what they will and will not do and provide. Written disclosures on a real estate agent's role are to be expected as part of good business practice.

No matter what kind of real estate agent you use, take time to find one you feel good about. Ask friends and co-workers for a personal recommendation. It is still the best way to find a good real estate agent. If you are new in town, note which real estate agents and companies have the most signs in the neighborhoods you like. Ask your lender if it offers a real estate agent referral service.

Select two or three real estate agents and interview them, using the guide on the next page. Look for solid credentials — someone who listens well and can translate your wishes into homes and neighborhoods you like. If the chemistry is not there, seek another real estate agent — it is important!

HINT: Ask friends and co-workers for a personal recommendation. It is still the best way to find a good real estate agent.

Interviewing Real Estate Agents

Questions To Ask:

Q. Are you a full-time real estate agent?

A. ____________________

Q. How many transactions do you close each year?

A. ____________________

Q. What is your average annual sales volume?

A. ____________________

($1½ million and up is expected of an active real estate agent.)

Q. Are you licensed to sell real estate?

A. ____________________

(REALTORS® are well-trained and must conform to a strict code of ethics.)

Q. Do you have access to a Multiple Listing Service (MLS)?

A. ____________________

(A Multiple Listing Service is a computerized database providing a fast, convenient way to gather much useful information about most of the local homes on the market.)

Q. Will you represent me or the seller in the transaction?

A. ____________________

(Traditionally, real estate agents represent the seller. However, buyer's agents, who represent the buyer, are becoming more common. Consider interviewing both types.)

Q. Would you work as a buyer's agent? If so, how would your fee be handled, and must I sign a buyer's agent agreement?

A. ____________________

____

(Buyer's agent fees usually are included in the purchase price, as are the listing agent fees.)

Q. Will you give me names and phone numbers of several people who have bought their homes through you during the past three months?

A. ____

____

____

____

(If yes, call and ask if the buyers were satisfied. Ask what they liked and did not like about the real estate agent. If the descriptions do not fit your style of business, find another real estate agent. If no, determine your level of comfort in doing business with a real estate agent without references.)

Good real estate agents can help you assess your financial situation and manage the various details of your purchase.

Finding The Right Home

If you select a real estate agent to assist you, arrange a time for your family to meet him and discuss your home preferences. The more the real estate agent knows about your family, the more effective he can be.

Discuss your needs and wants lists and ask for suggestions. Talk about the areas you have visited and ask for recommended neighborhoods you have not seen yet. Have the real estate agent recheck your loan qualifications or review your preapproved loan, if you have one. Armed with this information, the real estate agent will arrange appointments for you to see new or existing homes in your price range.

As you look at homes, remember that the ancient Latin principle of commerce still applies: Caveat emptor (let the buyer beware). Research the reputation of a home's builder. Look for signs indicating built-in quality: Is water pipe tubing made of PVC or a more expensive and durable material, like copper? What type of fixtures are used? Are windows single- or double-paned? Are walls and concrete smooth and crack-free? Is it an older home that could have lead-based paint? Is there a risk for environmental concerns such as radon?

Also consider a home's potential for improvement. Could title restrictions, zoning, homeowners' association ordinances or other regulations prohibit you from making intended improvements? What about structural and physical limitations? Could the structure accommodate a second story? Is there room to add a detached garage, and would soil conditions permit it? Would water, HVAC (Heating/Ventilation/Air Conditioning) and electrical capacity be sufficient to support the addition of an in-ground swimming pool?

Some states have legally mandated written Seller's Disclosure Notices. These should be carefully reviewed for important information about the property.

Ask to see copies of utility bills. If the home is in a rural area, it may have a septic system or a well. If so, ask to see copies of the percolation (perc) test made before the septic system was built. It will show whether the draining on the property is adequate to handle waste disposal. Also ask to see reports certifying the quality of the home's well water. If you have questions about a home that the selling agent cannot answer, he will contact the listing agent.

Take notes as you examine each home, especially if you visit several homes or spread your search over several weeks. You may want to use the "Checklist For Your Home Search" on the next page to guide your inspection of each home.

After narrowing your housing choices to two or three, make a return visit and consider photographing — or even videotaping — each one, inside and out. Be sure to obtain the owner's permission first. This will reduce confusion and assist in an orderly review. At this point, take your time and be thorough.

Once you have decided on the home that is right for you, submit an offer and pursue it diligently. Many a winning offer has been submitted and accepted while the first would-be buyers were still trying to make up their minds about the home.

Looking Beyond The MLS

When shopping for a home, you may encounter some properties which are offered for sale by their owners. These can be excellent buys, but are more difficult to find since they are not listed in the MLS and are not usually shown by real estate agents. If you have found a home you wish to buy directly from its owner, you should seek the help of an attorney who specializes in real estate transactions.

You may also want to review the foreclosure market, looking at homes for sale by the VA, FHA, the Federal Deposit Insurance Corporation (FDIC) and other government agencies. Some local lenders may have foreclosed properties for sale. These are labeled Real Estate Owned (REO). Many of these homes are offered at bargain prices with excellent terms. Others are sold at public auctions and require cash payment or a letter of credit. When buying a home through one of these programs, you may be subject to more restrictions and requirements than when using a conventional loan. Loan processing time may also be longer. Ask your real estate agent for lists and acquisition information.

HINT: Once you have decided on the home that is right for you, submit an offer and pursue it diligently.

The following list can help you evaluate features you like — and do not like — in a home. It can also help you develop your needs and wants list. Make one copy for each home you consider. If you work with a REALTOR,® he will likely generate MLS printouts for each home you visit. The printouts are arranged by price and include many items on the following list.

Checklist For Your Home Search

Address ______________________

Date of Visit __________

General

- Asking price __________
- Financing, FHA/VA: __________
- Financing, Other: __________
- Square footage __________
  (request documentation)
- Price per square foot __________
- Year constructed __________

Floor plan

- On what side does sun rise/set? __________
- Number of bedrooms/bathrooms __________

Size of rooms/colors

- Bedroom (master) __________
- Bedroom #2 __________
- Bedroom #3 __________
- Bedroom #4 __________
- Master bath __________
- Master closet __________
- Bathroom #2 __________
- Kitchen __________
- Family dining area __________
- Formal dining area __________
- Living room __________
- Family room __________
- Other __________

Interior

- Appliances __________
- Attic __________
- Attic vents __________
- Basement __________
- Ceiling fans __________
- Closets __________
- Electric garage door opener __________
- Energy efficiency __________
- Estimated utility costs __________
  (ask to see bills)
- Fireplace(s) __________
- Floor covering __________
- General condition __________
- Heating/ventilation/central air __________
- Humidifier __________
- Insulation __________
- Kitchen __________
- Lead-based paints used? __________
  (harmful if ingested, common in older homes)
- Plumbing __________
- Radon levels __________
- Security system __________
- Stairs __________
- Utility room __________
- Wallpaper __________
- Walls (check for cracks) __________
- Water softener __________
- Window coverings __________
- Wiring __________

Exterior

- Deck/porch/patio __________
- Doors __________
- Fence __________
- Foundation/grading/drainage __________
- Gutters and downspouts __________
- Landscaping __________
- Lot size __________

Checklist For Your House Hunt (continued)

Pavement condition	______________
Roof	______________
Septic system	______________
Siding materials	______________
Sprinkler system	______________
Swimming pool/hot tub	______________
Trees	______________
Windows (single/double paned)	______________

Neighborhood

Accessibility during inclement weather	
Adjacent property (its zoning, owner(s), and intended use)	______________
Airports	
City services	______________
Drive time to:	
Work	______________
Schools	______________
Shopping	______________
Recreational facilities	______________
Hospitals	______________
Churches	______________
Public transportation stops	______________
Entertainment/culture	______________
Landfills	______________
Near hazardous/noxious activities?	______________
Neighbors/children	______________
Noise:	
Airport	______________
Freeway	______________
Railroad tracks	______________
Other	______________
Overall appearance	______________
Percent homes for sale and rent in area	______________
Police/fire	______________
Power lines	______________
Privacy	______________
Restrictions (e.g., satellite	______________
dishes, out buildings)	______________
School district:	
Day care	______________
Elementary	______________
Middle school	______________
Junior high	______________
Senior high	______________
Security	______________
Snow removal	______________
Susceptibility to flood, earthquake, etc.	______________
Traffic	______________
Trash removal	______________

When comparing homes, it is important to know the price-per-square-foot of each, especially if you are unfamiliar with local property values. To establish the price-per-square-foot, divide the home's asking price by its square footage. For example, a 2,000-square-foot home listed at $125,000 has a price-per-square-foot of $62.50. Because of potential legal liability, some agents prefer not to disclose a home's estimated square footage. Others simply do not have this information. If your agent does not provide these figures, get them from your local tax assessment agency or the home's builder. Price-per-square-foot can serve as an objective benchmark to help you establish a home's value, relative to other similar-sized homes in the area. A list of comparable sales during the last six months is also helpful. Ask your agent for this list, which shows the price and square footage of neighborhood homes which have sold recently. You should also consider any unique features which may affect the cost of insuring the home. Older homes and those built on a slope, for instance, may cost more to insure.

Negotiating The Deal

Home buyers often think they can relax once they have selected their new home, believing the hardest work is over. That can be an expensive mistake. Negotiating the deal and financing the purchase are just as important as choosing the right home.

Negotiating the deal means more than just setting a price because your contract will usually include a substantial amount of personal property, too. Personal property includes items like refrigerators, water softeners, draperies and rods, valances, blinds, window shades, screens, shutters, awnings, carpets, mirrors, ceiling fans, mailboxes, television antennas, security and fire detecting equipment, garage door openers . . . and the list goes on.

Carefully consider areas that might be subject to negotiations. Does the home need to be repainted? Must the carpet be cleaned or replaced? If so, who will pay for it? Will the seller provide financing? Is there a home warranty? If not, will the seller pay for one? Take nothing for granted. Choose an inspector to carefully review the home after the contract is written and offer is accepted, but before closing. Make sure there is a contingency clause in the contract in case the inspection reveals problems which need to be taken care of by the seller. Put everything in writing.

The price you pay for a home depends on a number of variables, such as the motivation of the seller and whether you are negotiating in a buyer's or seller's market. The conditions you are asking the sellers to meet can also have some bearing. If the sellers see these as unreasonable or hard to comply with, they may be less likely to negotiate price. Here are more considerations:

- Earnest money: Though earnest money may not be required, custom dictates you pay a deposit to show "good faith" while negotiating. If the contract is signed and you fail to purchase the home without an acceptable reason, you may forfeit your deposit. The average amount is subject to negotiation and may vary from $1,000 up to 10 percent of the sale price. Make sure the contract states that, if you are unable to purchase the home, you lose only your earnest money and cannot be forced to buy the property. Also determine your recourse, according to the contract, if the seller decides not to sell after signing.

- Financing: Is your offer contingent on written loan approval within a specified time? It should be, unless you can complete the deal without a mortgage loan or you have a prepurchase loan commitment from a lender.

- Selling your present home: Can you afford to make monthly mortgage payments on both your new home and your present one? If not, you may need to make the deal contingent on the sale and funding of your present home. Be aware that in a seller's market, the seller may not give you this luxury. He has the right to sell to someone else who can buy immediately.

- Appraisal: Should the appraised value come in lower than the sales price, the difference between the two will need to be made up by either the buyer or the seller. Your loan down payment will usually be affected negatively if you pay the difference in value. If neither party wishes to pay the difference, the sales agreement should be considered void.

- Closing date: Closing is the final step in transferring home ownership from the seller to the buyer. It occurs when all the promises in the purchase contract are fulfilled, the loan documents are prepared and the loan is finalized. Usually, it is the actual date when the buyer takes title to the property and the sellers receive their proceeds. However, some lenders delay actual funding of the loan until they are able to review and approve all closing documents. The closing date is not necessarily the move-in date. So, if you need to move into the house on a certain date, write it into the offer. A temporary lease agreement may be appropriate.

- Closing costs: Usually, both the seller and buyer have closing costs. These are one-time charges unique to the transaction, such as the cost of a credit report, appraisal and title insurance. Who pays for what depends on lender requirements, who is underwriting the loan and what agreements the parties have made. For a list of common closing costs, see Pages 28–31.

If you have hired a buyer's agent, he will help you develop and implement your negotiating game plan. If not, the selling and listing agents will help prepare, present and negotiate your offer.

Most states have published contract forms that licensed real estate agents are required to use. Some experts recommend you hire a real estate attorney to help draft and review the sales offer and contract — before it is signed — regardless of whether you are using the services of a real estate agent.

After you make an offer, the seller may accept it, reject it or make a counteroffer. If a counteroffer is made — and they are quite common — you, in turn, may accept it, reject it or make another counteroffer. This process continues until both parties agree or until one of you refuses to negotiate further.

During negotiations, the threat of walking away is one of your most powerful bargaining tools, so use it wisely. If you tell the seller's agent you "simply must have this house," the seller has already won. If you remain willing to buy another house, you put the pressure on the seller to agree to your price and terms.

Once you and the seller sign and initial all changes on the offer, it becomes a contract. This document spells out the requirements for both parties to fulfill in order to close the sale. The agent or attorney provides the contract form. A contract can be changed, even after it is signed, through an addendum which both parties must initial and date.

Home Inspection

Any home, no matter how new, should be inspected by a professional. Pick a date that leaves enough time for the seller to make repairs before closing. Do not assume an appraiser will do a thorough inspection. Choose an inspector who is qualified to scrutinize every part of the home, including the roof, foundation, wiring, plumbing, heating and cooling system, water heater, appliances that will be part of the sale and other items identified in the contract. For example, inspectors affiliated with the American Society of Home Inspectors (ASHI) in Arlington Heights, Illinois, are required to pass qualifying exams and possess minimum levels of professional experience. You can contact ASHI at 800-743-ASHI or visit www.ashi.com.

FYI: Home buyers are usually welcome during the inspection process.

Home buyers are usually welcome during the inspection process. At this time, some inspectors can actually teach you how to operate your home and its systems while identifying present and future problems for your consideration. Include in your contract a clause giving the inspector access to the home. The fee for this service, paid by the buyer, will vary from approximately $150 to $300.

Afterward, you will receive a detailed, written report. If structural problems or environmental hazards are detected or suspected, the inspector should recommend necessary follow-up. Make sure the seller certifies in the contract that all systems will be in good working order at closing and that any defects found during inspection will be fixed prior to closing. The contract should enable you to cancel the deal if repairs are required beyond a specified amount. If the seller performs the repairs, ask that they be reinspected.

Immediately before closing, conduct a final walk-through of the home. Make sure that all personal property named in the contract has been left behind and that no new damage has occurred in or around the home.

Finding The Right Lender

Finding a reputable lender with a variety of mortgages and attractive loan rates is important. You can do the research completely on your own, or you can use the services of a mortgage broker. A mortgage broker is a company or an individual who shops for loans that will fit each buyer's particular situation. They are compensated by either the buyer or by the lender originating the loan.

Either way, consider the products and services offered by any lender you are evaluating. You must also consider discount points and loan origination fees when comparing lenders. A discount point is 1 percent of the loan amount, paid at closing. A loan origination fee, often another 1 percent of the loan amount, is applied toward the cost of making the loan and is a closing cost usually paid by the buyer. In some cases, you may negotiate the payment of points and loan origination fees with the lender. For instance, you may be able to eliminate points by taking a higher interest rate.

Rates and points can change throughout the day, so make comparisons on the same day and as close to the same time as possible.

Consider, too, whether the lender will allow you to lock in the current interest rate and points when applying for a loan. Lenders usually honor guaranteed lock-in rates for a specific time, such as 45 or 60 days. If you close the transaction within that period, the lender guarantees to provide the interest rate you locked in, regardless of whether rates rise or fall during the interim. Be sure to get a written lock-in agreement if you choose to lock in your rate. You may prefer to let the interest rate and points "float," hoping they will decrease before closing.

Some lenders offer a rate protection option enabling you to lock in at the current interest rate (or slightly higher), but lower your interest if rates fall during the processing period. There is usually a deposit required for using this option.

FACT: Lenders usually honor guaranteed lock-in rates for a specific time, such as 45 or 60 days.

Your choice of a lender should be based on more than just loan costs and interest rates. Carefully consider the company's reputation, customer service orientation, loan specialties and loan closings. It is not necessarily the lowest rate that will get you the best product and service. Ask your real estate agent or friends who have recently closed a loan to recommend companies that score high in these areas.

Also inquire about the lender's policy on selling mortgage servicing. Servicing a mortgage means collecting payments, managing escrow funds to pay taxes and insurance and providing other customer services. Often, the lender that grants your home loan is not the one that will service it. Problems can arise when mortgage servicing is sold or transferred. Loan payments may be lost or misdirected, and taxes and insurance payments may be delayed. In 1991, the U.S. Department of Housing and Urban Development (HUD) began requiring mortgage lenders to disclose information about their servicing policies and practices and to give borrowers written notification before selling their loan servicing contracts.

Many lenders offer the ability to get preapproved up to six months even before you start househunting.

The seller generally will expect you to apply for the loan within three to five days after signing the contract. Your real estate agent will itemize the information you will need to apply. Completing the application can take approximately 30 minutes to one hour or more, depending on the complexity of your personal finances. Processing of a VA loan can be expedited if you have your original certificate of eligibility at the time of loan application. To process a loan, the mortgage company will check your credit history, verify your current and previous employment, verify that you have sufficient funds to close and evaluate the appraisal report, among other things. To check on your application's progress during this time, contact the loan processor handling your account. Loan processing time varies widely from lender to lender and varies with the type of loan and the amount of activity in the marketplace.

When you apply for home financing, your chances of getting a loan approved will be higher if you have a stable employment history and a solid track record for paying bills on time. If you are between jobs or have recently taken a new position, lenders may not approve your loan or may approve a lower amount than you expect.

If you are planning, actually beginning or have finished with the process of military separation and are thinking of buying a home, consider whether you will be able to get financing before committing your time and energy to finding the perfect home. As mentioned earlier in this booklet, it is best to start your search with a realistic idea of what you can afford and what amount you can finance.

Types Of Mortgage Loans

There are a variety of options for financing your home. A description of the major types follows. Regardless of the type of mortgage you choose, be sure it complements your investment strategy. For some, this may mean reducing the loan amount as quickly as possible. Others may want to pay off a mortgage more slowly, taking advantage of applicable tax write-offs and investing the surplus funds where they might earn a higher return. Before choosing a mortgage loan, ask your lender or personal financial adviser for information about the various types, as well as their conditions and terms.

Some mortgage companies suggest you buy a mortgage life insurance policy to retire the balance of your loan in case of your death. This may not always be the best use of your money, since you may already have life insurance to cover this expense. Even if you purchase mortgage life insurance and a surviving spouse collects on the policy, it may be wiser not to use this money to pay off the mortgage. If a spouse has the financial resources to continue making mortgage payments, mortgage loan interest could be the best — and possibly only — federal income tax deduction. Evaluate your existing insurance coverage and consult your financial adviser.

Loan Assumptions

You might want to assume the seller's existing mortgage loan — and interest rate — if the rate on the original loan is lower than the rate you could get elsewhere when you are ready to buy a home. By assuming a loan, you take responsibility for paying the mortgage owed by the seller. Paying lower interest on an assumable loan will lower your monthly payments and, generally, lower closing costs too. In addition, the closing costs incurred when assuming an existing loan are usually less than those on a new loan.

Most conventional loans are not assumable, and fewer non-qualifying assumable FHA and VA loans are available. In March 1988, for example, new VA loans began requiring those who assume them to complete a mortgage application and submit to credit checks, just like any other buyer. If you qualify for VA entitlement, you can substitute your entitlement for that of the seller during the VA assumption process. Qualifying for an assumable loan generally releases the seller from liability if the buyer defaults on the loan. Sellers must request such a release, and it must be granted in writing by the lender. This is a very important document to the seller.

Fixed-Rate Loans

If you are not assuming an existing mortgage, you will need to select the type of new loan you want. The most popular is a fixed-rate conventional mortgage, repayable in 30 years. One advantage of this loan is its stable principal and interest payments. A major disadvantage is that, over the life of the loan, you pay back, in interest, two to three times as much money as you originally borrowed. As you repay a fixed-rate loan, your monthly principal and interest payments do not change. Your taxes, insurance and monthly private mortgage insurance (PMI) may be different from year to year.

VA Loans

Department of Veterans Affairs (VA) loans are another common way to finance a home. They generally require no down payment and are available to those with qualifying lengths of active duty, Reserve or National Guard military service. The loan amount the VA guarantees also changes occasionally. There is a VA funding fee, which is an administrative charge collected by the VA. This fee may be financed as part of the home loan. Homes bought with VA loans must pass rigid appraisals and must be purchased for your own occupancy, not to use for rental or as a vacation home. If you have already used a VA loan to purchase a home, and have not had your entitlement restored, the amount you can borrow for a second purchase may be limited, so check with your lender or the VA for more information.

FYI: FHA loan amounts vary regionally and are higher in Alaska and Hawaii.

FHA Loans

Like the VA, the Federal Housing Administration (FHA) also offers government-backed mortgage loans through approved lenders. FHA loan amounts vary regionally and are higher in Alaska and Hawaii. These loans require you to pay a mortgage insurance premium (MIP) to protect the lender in case you default on the loan. Like the VA funding fee, some of the MIP may be financed. These loans also require strict appraisals. You may obtain an FHA loan to buy a home that you will personally occupy. You may not obtain an FHA loan for rental property.

Adjustable-Rate Loans

If you move frequently or if you expect to own the property for only a few years, you might consider the advantages of adjustable-rate loans. Many of these loans have 30-year terms but offer lower interest rates during the first one to seven years of the loan.

The Adjustable Rate Mortgage (ARM) was initially developed during a time of high interest rates and allowed many people to purchase more home for their dollar. Today, ARMs still offer lower initial rates, in part because the risk of changing rates is shared by the borrower and lender.

With lower initial interest rates than a fixed-rate mortgage, an ARM can help you qualify for a larger loan amount and reduce your initial monthly payments. If you accelerate your loan principal repayment, an ARM periodically recalculates and reduces your monthly principal and interest payment, unlike a fixed-rate loan. Since qualified buyers can assume most ARMs, this type of loan may streamline the sale of your property too.

Another popular adjustable-rate loan is the convertible ARM. It begins with an adjustable rate but offers the option to convert to a fixed rate after a specified time. Converting an ARM to a fixed rate usually voids the ability for someone to assume your loan. Fees and conditions may apply.

You must exercise caution, however, because interest rates on ARMs fluctuate. From time to time your payments will be adjusted — up or down — based on a specified margin added to the designated index, such as Treasury bill rates. Most ARMs limit the frequency and amount of these adjustments. Six-month, one-year and three-year adjustment periods are the most common. Lenders are required by law to furnish borrowers with "a worst-case scenario," including interest rate and payment changes. Review it closely.

Another way to lower your initial interest rate is through an interest rate buydown. This is a lump-sum payment to the lender in exchange for reduced rates over the lifetime of the loan. It takes about four to six discount points — approximately $3,000 on a $75,000 loan, for example — to permanently reduce your interest rate by 1 percent. It is a good idea to buy down the interest rate by some amount if you will be in the house at least five to seven years. The shorter your expected stay, however, the less willing you should be to pay extra discount points. That is because you will not have time to recover, through lower mortgage payments, the initial costs. Discuss this concept with your lender. Buydown terms may involve the seller if he is willing to pay some costs.

Those who move frequently or plan to own the property for only a few years might consider the advantages of adjustable-rate loans.

Mortgage Affordability Chart

This chart shows what loan amount you could afford at the various interest rates. It does not include taxes or insurance. Figures are based on principal and interest payments only. To use the chart, find the monthly mortgage payment you can afford, then look under the interest rate columns. For example, a $900 monthly payment might enable you to qualify for a $135,277 mortgage loan at 7 percent interest, but only a $111,854 loan if your interest rate were 9 percent. The amounts listed are approximate and based on a 30-year fixed-rate loan.

Monthly Payment	Interest Rate										
	6.50%	7.00%	7.50%	8.00%	8.50%	9.00%	9.50%	10.00%	10.50%	11.00%	11.50%
$300	47,463	45,092	42,905	40,885	39,016	37,285	35,678	34,185	32,796	31,502	30,294
$400	63,284	60,123	57,207	54,513	52,021	49,713	47,571	45,580	43,728	42,003	40,392
$500	79,105	75,154	71,509	68,142	65,027	62,141	59,463	56,975	54,660	52,503	50,490
$600	94,926	90,185	85,811	81,770	78,032	74,569	71,356	68,370	65,592	63,004	60,588
$700	110,748	105,215	100,112	95,398	91,038	86,997	83,249	79,766	76,525	73,504	70,686
$800	126,569	120,246	114,414	109,027	104,043	99,425	95,141	91,161	87,457	84,005	80,784
$900	142,390	135,277	128,716	122,655	117,048	111,854	107,034	102,556	93,389	94,506	90,882
$1,000	158,211	150,308	143,018	136,283	130,054	124,282	118,927	113,951	109,321	105,006	100,980
$1,100	174,032	165,338	157,319	149,912	143,059	136,710	130,819	125,346	120,253	115,507	111,078
$1,200	189,853	180,369	171,621	163,540	156,064	149,138	142,712	136,741	131,185	126,008	121,176
$1,300	205,674	195,400	185,923	177,169	169,070	161,566	154,605	148,136	142,117	136,508	131,274
$1,400	221,495	210,431	200,225	190,797	182,075	173,995	166,497	159,531	153,049	147,009	141,373
$1,500	237,316	225,461	214,526	204,425	195,080	186,423	178,390	170,926	163,981	157,510	151,471
$1,600	253,137	240,492	228,828	218,054	208,086	198,851	190,283	182,321	174,913	168,010	161,569
$1,700	268,958	255,523	243,130	231,682	221,091	211,279	202,175	193,716	185,845	178,511	171,667
$1,800	284,779	270,554	257,432	245,310	234,097	223,707	214,068	205,111	196,777	189,011	181,765
$1,900	300,601	285,584	271,733	258,939	247,102	236,136	225,961	216,507	207,709	199,512	191,863
$2,000	316,422	300,615	286,035	272,567	260,107	248,564	237,853	227,902	218,642	210,013	201,961
$2,100	332,243	315,646	300,337	286,195	273,113	260,992	249,746	239,297	229,574	220,513	212,059
$2,200	348,064	330,677	314,639	299,824	286,118	273,420	261,639	250,692	240,506	231,014	222,157
$2,300	363,885	345,707	328,941	313,452	299,123	285,848	273,531	262,087	251,438	241,515	232,255
$2,400	379,706	360,738	343,242	327,080	312,129	298,276	285,424	273,482	262,370	252,015	242,353
$2,500	395,527	375,769	357,544	340,709	325,134	310,705	297,317	284,877	273,302	262,516	252,451
$2,600	411,348	390,800	371,846	354,337	338,139	323,133	309,209	296,272	284,234	273,016	262,549
$2,700	427,169	405,830	386,148	367,965	351,145	335,561	321,102	307,667	295,166	283,517	272,647
$2,800	442,990	420,861	400,449	381,594	364,150	347,989	332,995	319,062	306,098	294,018	282,745
$2,900	458,811	435,892	414,751	395,222	377,156	360,417	344,887	330,457	317,030	304,518	292,843
$3,000	474,632	450,923	429,053	408,850	390,161	372,846	356,780	341,852	327,962	315,019	302,941

Calculating Your Monthly Payments

Use the following chart to calculate monthly principal and interest payments.

To do this, find the interest rate you would pay, then locate the corresponding interest rate factor on the right. Multiply this factor times the number of thousands of dollars you are considering borrowing.

For example, principal and interest on a $100,000 loan at 10 percent interest would be calculated like this:

$8.78	x	100	=	$878.00
10% interest factor		loan amount, in thousands		monthly payment

Interest Rate	Interest Rate Factor (Per $1000 financed for 30 years)
6%	$6.00
7%	$6.66
8%	$7.34
9%	$8.05
10%	$8.78
11%	$9.53
12%	$10.29
13%	$11.07
14%	$11.87

To arrive at the rest of the monthly payment, take one-twelfth of the annual taxes and insurance and add it to the monthly principal and interest. That will equal the total monthly payment: Principal, interest, taxes, insurance (PITI).

If you will incur other monthly costs, such as homeowners association dues, PMI or tax and insurance escrows, add these to your total monthly payment.

Reducing Payback Time

Reducing a fixed-rate loan's payback time to 20 years, 15 years or even 10 years will sharply reduce the interest paid over the life of the loan. It will also direct more money toward principal reduction. You can do this with surprisingly modest monthly payment increases. For example, a 30-year mortgage of $100,000 at 8.5 percent interest carries a principal and interest payment of $769 a month. The monthly payment for a 20-year payback is $868 while a 15-year mortgage would be $985 a month. In most cases, lenders offer lower interest rates for loans with shorter maturities. A 15-year loan will generally have a lower rate than a 30-year loan.

FACT: By paying off the loan sooner, you will save considerable interest charges.

If you are a disciplined money manager, and if your loan has no prepayment penalty, you may consider taking a 30-year loan but paying it back sooner. You can do this in several ways: Make an extra lump sum payment each year, or increase your monthly payment by one-twelfth. For example, if your regular monthly payment were $1,200, you would pay $1,320 monthly and ask the lender to apply the extra to principal reduction. At the end of a year, you would have made the equivalent of 13 monthly payments. Using this plan could shave 10 or more years off the term of your 30-year loan. By paying off the loan sooner, you will save considerable interest charges. If your financial circumstances should ever require you to return to the 30-year repayment schedule, with its lower monthly payments, you can easily do so.

Others prefer the built-in discipline that accompanies a biweekly fixed-rate mortgage or contractual payment plan. The biweekly option calls for 26 payments a year — one every other week, in the amount of one-half the regular monthly principal and interest payment. This is equivalent to making an extra month's payment each year. There may be a charge for setting up a biweekly mortgage, so be sure to check with your lender.

However you choose to shorten your loan term, avoid "deals" which ask you to pay a fee to reduce the term. Generally, these "deals" use one of the above methods to structure your payments, but charge you a service fee.

Closing Costs

The closing meeting (also referred to as “settlement”) normally takes place at an escrow company, title company or attorney’s office. During this meeting, the sale is finalized by the buyer signing the title and mortgage documents and paying the closing costs. The seller will attend a similar meeting to sign the title documents. Ownership of the property is transferred when all documents have been signed, recorded and monies paid.

If your closing date is also your move-in date, ask for the keys to your new home and consider changing the locks. Also, collect from the seller all appliance and systems warranties, names of contractors who have worked on the home, the location of utility cutoffs, security system combinations and any other information that may help you maintain your home.

One-time closing costs usually average between 2 percent and 4 percent of the loan amount and, traditionally, are paid by the buyer. However, they are negotiable and may be paid by the seller or split between the two parties, unless prohibited by the type of loan you are getting.

The law requires lenders to provide an estimate and explanation of closing costs shortly after you apply for a loan. Work sheets tailored to your geographic area are available from many escrow companies and title companies to help you estimate closing costs. Here are some of the closing costs you can expect:

- Homeowner’s Insurance: Property protection is required by mortgage lenders. You will need to provide proof of insurance to your escrow company before closing. Although many lenders require only fire and hazard insurance up to your loan amount, many people buy extra protection for their homes and personal possessions. To make sure that your property is adequately covered, be sure to assess your needs before purchasing insurance. Insurers automatically quote about half the dwelling amount for personal property coverage; an inventory of your possessions will determine if that is enough to cover your situation. Tell the insurance company representative preparing the quote if you want more personal property coverage;

FACT: To make sure that your property is adequately covered, be sure to assess your needs before purchasing insurance.

replacement cost coverage on your home or its contents; additional coverage for detached structures such as a garage; higher limits on expensive items such as jewelry, watches and furs; and/or higher limits on liability and medical payments insurance.

In addition, some homes may require flood insurance, which is a separate policy from homeowner's coverage. If your lender requires this type of insurance, it will come up during the loan application process.

- Appraisal: A mortgage appraisal estimates the current market value of a home and the property on which it is located. Mortgage appraisals differ from insurance appraisals, which evaluate how much it would cost to rebuild a home completely. The mortgage and insurance appraisals may both differ from the value that taxing entities place on a home.

- Attorney's Fees: If you use a lawyer, agree on fees and when they are payable. Fees may be billed as a lump sum or itemized; they may be paid at or before closing.

- Credit Report: This report furnishes lenders information regarding your history of repaying debt.

- Escrow/Title Company Costs: Before closing, a mutually acceptable escrow company is selected to act as a third party for both yourself and the seller. On behalf of both parties, escrow companies carry out and assume responsibility for handling all paperwork and distributing funds.

  The fee for using an independent escrow company varies, often according to the price of the home. In some states, attorneys or title insurance companies customarily perform the duties of an escrow company.

- Home Warranty Programs: If you want to buy a home warranty — and the seller has not already purchased one — this cost is generally payable at closing. Home warranties usually offer yearlong protection from a breakdown of many household systems, including plumbing, water heater, disposal, heating and cooling and appliances. Some warranties are more extensive than others, but most do not cover damaged sprinkler systems or structural components like foundations and roofs.

- Loan Origination: A fee, usually 1 percent of the mortgage loan amount, is charged for preparing documents and funding the loan.

- Pest Inspection: In most states, an inspection for termites and other wood destroying insects is a lender condition of obtaining a loan. If these insects are found or if damage is present, the home must be treated and repaired. Inspection costs vary from $100 to $200. Who pays for this cost is a negotiable item, though the VA requires that it be paid by the seller.

- Recording Fee: This is a fee your local government charges to process paperwork connected with the recording of the real estate purchase.

- Survey: This is the measurement of the property boundary lines by licensed engineers or surveyors to determine its area and attest to its boundaries. Though all states do not require surveys, they are a good idea for safeguarding your investment.

- Title Search And Insurance: An escrow or title company searches legal records to ensure a home's title is free from any encumbrances before it is sold. Title insurance guarantees that all known/recorded issues have been reviewed and noted. If insurable conditions are missed, the title policy guarantees coverage under various state regulations. The owner's title policy insures the owner of clear title to the property up to the point you purchase the property. Check for policy exclusions and make sure you understand them. The lender requires its own title policy to insure the lender of a valid lien on the property.

The cost for title search and insurance varies by state and according to the price of the home. The fee for the lender's title policy is a negotiable item between the buyer and the seller when obtaining a conventional loan. With VA financing, the lender's title policy is typically paid by the seller. The home buyer will usually pay for the owner's title policy.

Prepaid Items

At closing, you may be asked to make payments on a number of recurring costs. Often, these are called prepaid costs. Usually, only the home buyer incurs prepaid costs. Examples include:

Private Mortgage Insurance (PMI)
Many lenders require PMI for conventional loans with down payments of less than 20 percent. It protects the lender in case you default on your loan.

FACT: An escrow or title company searches legal records to ensure a home's title is free from any encumbrances before it is sold.

If you put at least 20 percent down, most lenders will not require PMI and your monthly payments and closing costs will be lower. (See the Glossary for an explanation of mortgage life insurance, a different product.)

If the lender requires PMI, the use of a second mortgage may be an alternative. A second mortgage has a tax deduction advantage, in some cases a lower payment, and unlike PMI, you are creating equity with each payment.

Homeowner's Insurance
As mentioned earlier, lenders require basic fire and hazard insurance, usually up to your loan amount. Often you must pay the first year's premium in full in addition to two monthly payments. These two extra payments are used to set up an escrow account, from which future payments are made.

Prepaid Mortgage Interest
Most lenders require you to pay for the mortgage interest that will accrue on a daily basis between the closing date and the end of that month.

Property Taxes
The escrow company will prorate your share of taxes. You will be required to deposit money on reserve for future taxes.

Buying a home requires a great deal of time and effort and you may be tempted to try shortcuts. If you follow the road map, it will help guide you to the best home at the best price.

If you follow the road map, it will help guide you to the best home at the best price.

Glossary

Adjustable Rate Mortgage (ARM): A loan that allows the interest rate to change periodically. These changes, up or down, are linked to changes in a financial index, such as Treasury bills. Some ARMs have a cap on interest rate increases.

Amortization: The gradual repayment of a mortgage by periodic installments.

Annual Percentage Rate: The total finance charge (interest, loan fees, points) expressed as a yearly rate.

Appraisal: An estimate of the market value of your property. It is usually conducted by a professional who is not an employee of the lender. Real estate, tax and insurance appraisals may differ widely.

Assessed Value: The value a public tax assessor assigns to property as the basis for levying property taxes.

Assumption: An agreement permitting the buyer to assume responsibility for a mortgage owed by the seller.

Buydown: Paying a lump sum up front to reduce the interest rate on a mortgage. The reduction may be temporary or for the life of the loan.

Buyer's Agent: A real estate agent who helps the buyer find the house, price, terms and conditions most favorable to the buyer.

Cap: The maximum amount an interest rate or monthly payment can change, at established intervals and/or over the life of the mortgage.

Closing: The final step in transferring ownership of a property from the seller to the buyer. Also refers to the actual meeting where this occurs.

Closing Costs: Fees and expenses, not including the price of the home, payable by the seller and the buyer at the closing (e.g., brokerage commissions, title insurance premiums, and inspection, appraisal, recording and attorney's fees).

Combined Gross Annual Income: Pretax earnings of all borrowers.

Conventional Loan: A loan that is not backed by the federal government. Often these have fixed-rates and terms. May require private mortgage insurance (PMI).

Credit Check: A lender-initiated study to determine creditworthiness based on credit history.

Deed: A legal document conveying title to a property.

Department of Housing and Urban Development (HUD): A government agency established to implement certain federal housing and community development programs.

Department of Veterans Affairs (VA): A government agency that provides services for eligible veterans of the armed forces. Among other programs, it guarantees mortgage loans made by private lenders to veterans.

Down Payment: A lump sum the buyer pays at closing. The amount varies according to the price of the home and the requirements of the lender or underwriting agency (e.g., FHA or private mortgage insurance company). The loan amount is the sale price less the down payment plus any financed fees.

Dual Agency: The situation where a real estate agent, selected to act as an exclusive agent for a buyer, shows one of their own (or in some states one of their firm's) listings. In this case, the real estate agent should obtain informed consent from the seller and buyer before proceeding with any transaction. The real estate agent is also to treat the interests of the buyer and seller equally.

Earnest Money: A portion of the down payment, deposited on behalf of the seller by a potential buyer. Earnest money indicates the buyer's intent to complete the purchase of the property and is usually applied toward payment of closing costs. Earnest money may or may not be required by state law.

Equity Loan: A loan based on the borrowers' equity in their home.

Escrow: The placement of money and documents with a third party for safekeeping until a home sale closes or until specific contractual obligations have been fulfilled. Escrow also refers to an account, maintained by a loan servicing department, which serves as a trust fund to pay taxes, insurance or other costs associated with home ownership.

Federal Housing Administration (FHA): An agency within the Department of Housing and Urban Development (HUD) that administers loan insurance programs to make more housing available.

Lien: A legal claim against a property. Liens must be paid when the property is sold.

Listing Agreement: A contract between a seller and a licensed real estate broker hiring the broker to sell real estate on the owner's terms within a given time at an agreed commission.

Lock-In Rate: A lender's commitment to freeze a mortgage loan rate during loan processing. Lock-in periods and fees vary.

Margin: A number above a financial index, usually expressed as a percentage, which a lender adds to the index to determine the interest rate of an adjustable rate mortgage.

Market Value: The highest price a buyer will pay for a property and/or the lowest price the seller will accept. The most probable price that a property should bring in a competitive and open market.

Mortgage Broker: An individual or company that obtains mortgages for others by finding lending institutions, insurance companies or private sources to lend the money; brokers may also handle processing, collections and disbursements for the mortgage lender.

Mortgage Insurance Premium (MIP): An insurance premium home buyers pay on FHA loans to protect the lender against default. Includes an "upfront" premium which may be financed and a monthly premium collected in the payment.

Mortgage Life Insurance: A policy that guarantees repayment of the loan by the insurer if the borrower becomes disabled or dies. Many types are available, the least expensive being "accidental life insurance." Many others are decreasing term insurance policies issued to cover the mortgage balance.

Multiple Listing Service (MLS): A computerized database listing pertinent information about local for-sale and sold homes and properties.

Points: A dollar amount paid to obtain a specific interest rate. One point is 1 percent of the loan amount. Also called discount points.

Prepaid Items: Recurring charges such as taxes, interest and insurance. These costs can be paid by the buyer or seller — or jointly — if the parties agree and if the type of loan chosen does not prohibit it. Usually only the buyer incurs prepaid items.

Principal Broker: An individual who is licensed to operate a real estate office. Brokers may work independently or hire other agents. All real estate agents must work under a principal broker's license.

Principal, Interest, Taxes and Insurance (PITI) Payment: A periodic, usually monthly, payment which includes the principal and interest payment, plus a contribution to the escrow account established by the lender to pay insurance and property taxes on the mortgaged property.

Private Mortgage Insurance (PMI): Insurance written by a private company protecting the lender against loss if the borrower defaults on the mortgage, although the buyer is still responsible for the default. Many lenders require PMI for conventional loans with down payments of less than 20 percent.

Radon: An odorless, radioactive gas occurring in nature. In certain areas of the country, radon is more prevalent, and tests may be necessary for homebuyers to determine the radon level inside a home. Exposure to high concentrations can lead to lung cancer. Tests are available to determine radon levels.

REALTOR:® A person engaged in the real estate business who is a board member or an individual member of the National Association of REALTORS.® As such, he or she is subject to the Association's rules and regulations, entitled to its benefits and bound by the REALTOR'S® Code of Ethics.

Real Estate Broker: A person, corporation or partnership which sells, buys or negotiates the purchase, sale or exchange of real estate for others. A real estate broker must have a broker's license.

Title: A document that provides evidence of ownership.

Title Insurance: Protection for lenders and homeowners against financial loss resulting from legal defects in the title.

VA Funding Fee: A fee the Department of Veterans Affairs charges veterans obtaining VA loans.

Notes

Notes

Research Hints

TIP: When researching on the web, make sure that your source is a reliable and known entity.

There is a wealth of information on this topic that can be further researched at your local or college library, or on the Internet. The Internet is a wonderful research tool where you can find sites that provide general information, related links and resources that can help you in your search. Log onto a search engine and type in keywords of the subject matter that you are researching—for example, "financial planning", "college scholarships", or "auto insurance." If you explore the numerous sites on the Internet, you should be able to strengthen your research and find information that will fit this subject. The USAA Educational Foundation has not reviewed and cannot guarantee the accuracy of any other Internet Web sites.

The USAA Educational Foundation offers the following related publications:

Managing Debt (#501)

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Selling A Home (#519)

Renting A Home (#533)

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The mission of the USAA Educational Foundation is to help consumers make informed decisions by providing information on financial management, safety concerns, and significant life events.

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