How to Buy a Home

Buying a home is probably the biggest purchase you'll ever make. Without the proper information, it can also be the most difficult. This primer on the home buying process will prepare you for the responsibilities of owning a home. The content and tools have been designed to provide the first-time home buyer with a step-by-step guide to navigating the sometimes intimidating and often confusing path to home ownership.

Step 1: What Can I Afford?

Determining whether you can afford to buy a home as well as how much you can afford to spend without overextending your budget is an important first step. This section provides a Quick Eligibility calculator to help you find out if your income level is sufficient to qualify for a loan product. You can also access important tools for managing debt, and read valuable information on credit and the lending process to help you prepare for the financial side of purchasing your first home.

Step 1: What Can I Afford?

The first step on the road to home ownership is to determine your budget and establish what you can afford to spend on a property. Remember, along with paying the mortgage, there are other expenses involved. Before venturing down the path toward home ownership, every first-time home buyer should evaluate their personal finances..

Things to Consider

Part of your rent payment covers certain housing expenses, some of which are listed below. When you decide to purchase a home, you accept responsibility for paying these expenses. These costs are not included in your monthly mortgage payment but should be part of your budget estimates. They include

- Property Taxes and Special Assessments
- Home/Hazard Insurance
- Utilities
- Maintenance
- Home Owner Association (HOA) Fee: *Doesn't apply to all purchases. Pays for trash and snow removal and maintenance of common grounds, if applicable.*
- Membership Fee: *May pay for recreational facilities and other services (cable TV).*

Step 2: Finding an Affordable Property?

Finding an affordable property in Massachusetts, especially in or around the Boston area, can be quite a challenge. Once you've defined what you can afford to spend, take the time to define your wants and needs in a house, neighborhood and community. This step of the process will help answer your questions about locating properties, and will offer helpful house-hunting tips for finding the right home in the right location.

Step 2: Finding an Affordable Property

Once you've determined your price range, it's time to start looking at houses. But where should you look, and what can you expect to find? In all likelihood, no one home will have everything you want. But the home you ultimately purchase should meet as many of your expectations as possible. A key to the entire process is narrowing your search and not wasting time looking at every property.

Where should I begin?

Begin to develop a list of expectations that you have for your new home. Some of the items on the list will describe the interior, amenities and size of the house. Location, lifestyle and availability will also come into play. Commuting distance to work, to public transportation and the quality of area schools are all considerations that might be on your list.

Your list of wants and needs is a reflection of you, the future home owner. Take the time to make the list, and review and update it throughout the entire home buying process. The more items on your list that your new home has, the happier you will be when you're living in it.

What are my options?

Before you can find the right house, you'll need to decide what type of home you want. There are a number of housing types to choose from, the most typical being

- Single-Family
- Condominium
- Multifamily
- Fixer-Upper

Choosing a Location

After you've decided on the type of property you want to purchase, the next step is choosing the location. There are several considerations:

- How far are you willing to commute to work or how close is highway access?
- Will you be close to shopping, churches, day care facilities and recreational facilities?

- Is there public transportation nearby, which could eliminate the need for a second car.
- Will public schools meet the educational needs of your children, or will you have to enroll them in private schools?

By answering these questions, you can narrow down the number of towns where you look for a home. Again, prioritize which attributes are most important to you, both in terms of location and the home itself. Would you trade a larger yard for highway access, public transportation for shopping and restaurants, a shorter commute for better public schools? With your list of wants and needs in hand, you will be better equipped to research and identify towns that best suit your desired lifestyle.

House-Hunting Tips

As you start to visit open houses and other properties for sale, consider the exhaustion factor. It's not just a matter of being physically tired, it's the fact that after a while, all the houses start to look the same. Therefore, keep in mind the following:

- Bring a notepad and map with you. Mark the location of each house on the map and write down special features on the notepad.
- If the owner offers you a fact sheet, save it even if you don't seem interested in the house at the time. Later on, you may think about it and realize the home had more appeal than you had initially thought.
- Never look at more than three houses at once. After that, you're no longer being careful; you're just running through, and not paying attention to the details that could help you find your dream home.
- If you are going to look at a lot of houses, take big breaks. See three homes in the morning, then stop and have lunch. See three more, then stop and do something else. See three more in the evening. Nine houses in one day is the absolute capacity for almost any prospective buyer. Even with nine, the features of one home will begin to blend in with those of the others.
- Get a camera and snap pictures of the houses that appeal to you. The images of the interior and exterior will jar your memory and help you recall the details of that property. Frequently, agents or owners will provide photocopied pictures; be sure to grab copies when they are available.
- Make a rough-sketch of the floor plans of the homes you consider to be top contenders.
- Ask questions. Many buyers worry that the agent will think them foolish if they ask questions. But remember, ***there are no foolish questions!***
- As a first-time home buyer, you will want to know *everything* you can about each property. Often, one question about pipes, heating or cooling systems, taxes, age of the home or recent repairs will lead to other questions. You may find areas of concern about a specific property that, initially, looked trouble-free.

Remember, it is far better to know about a house's problems before you buy than it is to discover them once you own the property.

How do I find the right house?

There are a number of resources that will help you find the right house for you. For instance:

- Area newspapers
- Driving around in search of For Sale signs
- Talking and working with real estate agents
- Checking bulletin boards at the office, or in and around the neighborhoods in which you are planning to buy
- Talking to friends, acquaintances, and people at work
- Using the Internet for research. Try the following: If you decide to do the house shopping on your own, gather information about various communities in which you can afford to buy. Find out what the neighborhoods offer in terms of schools, public transportation, shopping, safety, recreation, and accessibility to work.

An easier way may be to contact a real estate agent. In a single conversation, a real estate agent can give you information that might take you several weeks to gather on your own. Agents can be excellent sources of information. However, when it comes to actually buying a house, remember, *real estate agents work for the seller not the buyer*.

The agent is able to select homes from the Multiple Listing Service (MLS), a computerized system that lists all registered properties for sale by market area. In a matter of minutes, a real estate agent can perform an online search of properties for a prospective home buyer.

Another home buying resource is a buyer's broker. Unlike the typical real estate agent, buyer's brokers work exclusively the buyer. The buyer's broker can be paid directly by the buyer, or can be given a portion of the commission earned by the property seller's agent. The payment arrangement is usually determined up front when you are negotiating with the buyer's broker.

Step 3: Home Buyer Counseling

Home buyer counseling programs educate first-timers on the complexities of the home buying process and help prepare them for the responsibilities of home ownership. While MassHousing requires that some borrowers attend and complete home buyer counseling, the courses can provide a great deal of value for all first-time home buyers. This step describes the benefits of home buyer counseling and helps you access a course in your area.

Step 3: Home Buyer Counseling

If you're hungry for information about real estate, home buying and home ownership, consider home buyer counseling. MassHousing's Home buyer counseling Program educates first-time home buyers in the complexities of the home buying process, and prepares them for the responsibilities of home ownership.

Do I need home buyer counseling?

In order to obtain a MassHousing loan, all borrowers with down payments of less than 5% of the total purchase price or borrowers who are purchasing multi-family properties are required to complete home buyer counseling and obtain a certificate of completion prior to closing.

What are the benefits of home buyer counseling?

Attending a home buyer counseling course will help dispel the mystery of the home buying process by giving you a way to put it all together. This includes finding the right home in the right neighborhood, choosing the right mortgage and mortgage terms, as well as assisting you in learning real estate industry terminology.

Programs include discussions of

- The mortgage application process
- Down payment and closing cost requirements
- Credit evaluation and the importance of credit
- Making an offer to purchase
- Obtaining a home inspection
- Closing preparation
- Special considerations for buying condos and multi-family properties
- Post-purchase issues
- Budgeting

Step 4: Getting Pre-Qualified

Pre-qualification, the first step in obtaining a mortgage, is a quick comparison of your household income, the estimated purchase price of your home, and its expected occupancy level. This step walks you through the process, verifying your eligibility, gathering basic information, and recommending a lender to provide you with mortgage Pre-Qualification.

Affordability Questions and Answers

What part does budgeting play in the picture?

Home ownership brings with it increased financial responsibilities. You must be willing to keep track of your money, knowing what you spend each month, and factoring in the other obligations that come with owning a home.

By estimating the expenses of home ownership and knowing what you spend your money on now, you can forecast your overall financial obligations as a homeowner. Doing so will help you focus on homes you can afford.

Even before you begin looking at homes to buy, keep a budget. A good view of your income and obligations will lessen and even eliminate any financial surprises as a homeowner. Consider some of the up-front costs of owning a home:

- Down payment
- Closing costs
- Moving costs

Settling in costs include

- Furniture
- New appliances
- Immediate and necessary repairs
- Increased utility charges

How is my monthly mortgage payment calculated?

The following factors determine your monthly mortgage payment: how much you borrow, how long you borrow for, and the interest rate of your loan. These factors are all part of the equation your lender uses to calculate your monthly mortgage payment.

What are underwriting ratios and how do they affect how much I can borrow?

Underwriting Ratios are the percentage of a borrower's gross monthly housing expenses compared to monthly income (i.e., monthly income, total housing payment) and the percentage of overall monthly debt to monthly income. For a Mortgage loan, for example, the housing expense percentage must be 39% or less, and the overall debt-to-income percentage should be no more than 36% (30/36). These percentages are used by lenders as a guide to calculate the amount of debt you can carry on a monthly basis. If your debt exceeds the established ratios, you may not be approved for the amount of mortgage you require.

How do I determine how much I can borrow?

Here's a quick method to determine your home buying power. Multiply your monthly income before taxes (gross income) by 30% (0.30). This number represents what lenders will allow for the monthly mortgage payment (principal and interest), taxes, and insurance (PITI).

Next, multiply your gross monthly income (what you earn each month before taxes) by 36% (0.36). This is the most you can spend on all your bills (credit cards, auto loans, and other bills), including your new house payment, and still qualify for most mortgage loans.

Keep in mind that many lenders have special loan programs that allow you to stretch your buying power. Some allow you to use as much as 38% of your monthly income (and sometimes even more) toward your total bills (including your house payment) if you have demonstrated the ability to handle additional debt over time.

My lender talked about an LTV. What does that mean?

LTV stands for loan-to-value ratio. This ratio compares the mortgage amount to either the appraised value or the sales price of the property, whichever is less. This ratio also shows how much equity you have in the property. For example, if you are buying a house worth $100,000, have a 5% downpayment, and are getting a mortgage for $95,000, the LTV on your loan will be 95%. Lenders generally use this ratio to determine whether you will need mortgage insurance, which is explained later in this chapter.

How do I estimate the amount of my down payment?

While most home buyers rely on a mortgage to purchase their home, no mortgage will cover the entire purchase price. Buyers must use their own funds to make an initial payment, known as a down payment, on the home they are buying. Lenders believe that buyers who contribute their own funds to the purchase of a home represent a better credit risk.

In addition, investing some of your own money into the purchase of your home shows the lender that you are committed to staying in the home and to repaying the loan. Your down payment is considered equity in the property.

Most conventional banks and lenders require down payments of 5% to 20% to qualify for a mortgage. Some mortgage loans for first-time home buyers making down payments of 5%, 3%, and in some cases, 0%. This flexible down payment requirement recognizes that with the increases in housing costs over the past decade, many families are unable to save for a down payment and mortgage closing costs.

What are mortgage closing costs?

Mortgage closing costs are charges to the borrower that must be paid at loan closing over and above the down payment for the house. They may include mortgage application fees, attorney fees, title insurance, fire and hazard insurance (protects both the lender and borrower from losses due to fire and other hazards to the house), mortgage insurance premiums, filing and recording fees, standard bank settlement costs, and bank origination fees, i.e., the financing charged by the lender for making the mortgage. These are computed as a percentage of the loan amount and are often referred to as points.

Closing costs vary depending upon several factors, including whether you choose a mortgage product with a 0, 1 or 2 point option, and the costs of mortgage insurance.

What is Mortgage Insurance?

If your down payment on the house is less than 20% of the purchase price, your loan must be insured by an approved mortgage insurer. Based on individual needs, borrowers can choose from one of the annual or monthly payment options offered by mortgage insurance companies.

What is the cost of mortgage insurance?

The cost of mortgage insurance at closing depends on the amount of your mortgage loan. For example, if you make a down payment ranging from 5% to 10% of the purchase price, you will pay more for mortgage insurance than you if you make a down payment of 15% to 20%. Together, all of these closing cost expenses will run between 2% and 5% of the mortgage loan.

On July 29, 1998, President Clinton signed The Homeowners Protection Act of 1998. The purpose of the law is to require automatic cancellation and notice of cancellation rights with respect to private mortgage insurance (PMI) purchased in connection with a residential mortgage loan. Borrowers should ask their lenders to provide written disclosures explaining when and under what circumstances PMI may be canceled.

My lender asked questions about my credit. How do I establish credit?

Paying bills on time establishes credit. Whether you have good or bad credit is determined by when you pay your bills, and the length of time (number of months) it takes you to pay off a bill or credit card charges. All this information is recorded on a credit report.

How do I obtain my credit report?

You can request a copy of your credit report from any of the credit bureaus that operate in the area in which you live. They are listed in your phone book's yellow pages under Credit Bureaus. Some charge a fee, but many will provide you with one free copy of your credit report each year. In Massachusetts, there is a law that you may request one free report each year.

Why does my credit report matter to lenders?

Lenders judge how you have paid your bills in the past as an indication of how you can be expected to pay them in the future.

When you apply for a mortgage loan, the lender will order a credit report to verify current debts and determine how well you have repaid your past debts. For more information on how you can obtain a copy of your credit report, visit the following websites:

- www.experian.com
- www.transunion.com
- www.equifax.com

What if my credit report is not perfect?

Your credit history doesn't need to be spotless, but it must clearly show your willingness to pay your debts. If you have had problems in the past, your more recent track record of keeping current on your debt payments shows lenders that you've taken corrective measures. But if you are *currently* having credit problems, the lender may determine that you're not ready to buy a home until they are resolved.

NOTE: When you receive your credit report, look at it carefully. Credit reports may be inaccurate or may give a misleading picture of past credit problems that have since been resolved.

How should I resolve credit issues?

A clean credit history is ideal, but if you've had problems in the past, you should rectify them before beginning the home buying process.

If you have ever owned a home and your mortgage was foreclosed upon, the credit report will show the foreclosure and the lender will want to know the reason for it.

If you declared bankruptcy, this will also be revealed on your credit report. Once again, the lender will want you to explain the circumstances of the bankruptcy.

If you had poor credit in the past, lenders will want to see that you have re-established your credit and are able to manage your debt.

Detailed written letters of explanation for any untimely debt payments are necessary, and can be the main reason that a lender approves a loan they would otherwise reject. Be sure the letter highlights what steps were taken to resolve the problem.

If you do not have any credit cards or have never taken out a loan from a bank, you will have to build a non-traditional credit history. This requires the lender to document your monthly rent payments to previous landlords, and your monthly payment history with utility companies and insurance companies. Remember, lenders want to see a successful track record of debts owed and duly paid.

How can I strengthen my loan application?

A regular savings pattern in a savings account will make your mortgage application stronger. Remember, the longer you have a regular savings history, the better your mortgage loan application will look to lenders.

A consistent work history and good credit strengthens all loan applications. However, if you have changed jobs recently or have had numerous jobs in the past several years, writing a letter of explanation will help the underwriter understand your circumstances. What may look like a person who changes jobs every year will now show the underwriter that you have been promoting your career path with additional responsibilities or more money. Also, as stated earlier, if you had credit problems in the past that have since been rectified, your should provide a well written letter of explanation ready before the lender reviews your application. These letters will allow the lender to better understand you and your circumstances, and will help to get your loan approved.

Step 5: Making an Offer

Making an offer on a house may be the single most intimidating step for the first-time home buyer. This section discusses the offer process, the Purchase & Sale Agreement (P&S), important considerations when preparing your offer, and tips on how and when to negotiate with the seller.

Step 5: Making an Offer

Once you've found the home that best meets your wants, needs and budget, it's time to make an offer. An offer is a formal bid for the property, and among other things, sets the amount you are willing to pay for the home. The Offer to Purchase is a signed contract and is therefore a legally binding commitment stating that you will buy the property provided certain terms and conditions are met.

An accepted Offer to Purchase Real Estate must be in writing and must be signed by both parties; the Commonwealth of Massachusetts does not recognize verbal offers as valid. You might consider bringing your lawyer into the process before you sign anything, because an attorney can protect your interests as a first-time home buyer.

Considerations

Many factors come into play as you prepare to make an offer on a property. Carefully consider the following points:

- What is the condition and age of the house?
- What will be the cost of any repairs?
- Are the sellers willing to take on any of the repairs or closing costs?
- How long has the property been on the market?
- How active is the market? (i.e., buyers or sellers market)
- Are the sellers anxious to sell?
- Is the property in a particularly desirable location or school system?
- Does the house have everything or almost everything you've been looking for?

Preparing the Offer

When you are ready to make an offer to a seller or to the agent involved, do not offer more than you can afford. The offer should clearly outline all terms and conditions of the sale, including your name and the name of the party to whom the offer is made, the property's address, any special provisions regarding fixtures, appliances, etc., the total amount of the purchase price being offered (including the amount of deposit you are putting down to bind the offer and the additional deposit to be paid upon the execution of the Purchase and Sale Agreement), and any additional riders and deadline dates.

Real Estate Regulations for the Commonwealth of Massachusetts can be obtained from www.mass.gov

Timing and Deadlines

Timing and deadlines are very important in real estate transactions. You should allow yourself enough time in the Offer to Purchase Real Estate to get an inspection, negotiate the Purchase and Sale Agreement, apply for and obtain mortgage financing, and set a closing date. Real estate deals often fail based on the inability to meet deadlines set forth in the offer.

An Accepted Offer

The seller may accept, reject or counter your offer. If there is a counter-offer, you may in turn accept, reject or counter. The negotiations between you and the seller could go on for several days and may be stressful at times. One way to mitigate stress during the negotiations is to involve a broker to mediate the process. It is important to remember that regardless of the progress of your negotiations, the house remains on the market during negotiations.

Do I Need an Attorney?

It is recommended that you retain an attorney when purchasing your first home.

How will an Attorney help me?

An attorney will protect your interests as a home buyer, and will

- Help you negotiate a fair purchase price
- Help you prepare the Offer to Purchase
- Help you negotiate a more favorable purchase price if the home inspection uncovers significant problems
- Draft and/or revise the Purchase and Sale Agreement to protect you and your money
- Assist you with the mortgage process
- Prepare you for the final walk-through of the property
- Attend the closing and represent your interests.

Tips for Successful Negotiations

When negotiating the price of a home with the seller, you must analyze all of the relevant factors and determine who has the stronger bargaining position.

Potential factors include market activity, location and timing. If the local market is active with many other buyers interested in the home, the seller may have the better position. If your local market is not active and the seller needs to sell the home, you may be in a better position to negotiate. For negotiating tips, Go>>

The Purchase and Sale Agreement

Once your offer has been accepted a Purchase and Sales agreement (normally the second contract between the buyer and the seller after the initial Offer to Purchase is signed) is drawn up by the broker. The Purchase and Sale Agreement spells out the agreement between the parties in specific detail.

REMEMBER! This is a legally binding contract that should be reviewed by your attorney before you sign it.

There are two types of Purchase and Sale Agreements: a Standard Form Purchase and Sale Agreement and a Condominium Purchase and Sales Agreement, which is designed specifically for issues associated with condominiums. It is a good idea to contact a broker to obtain copies of these forms.

Provisions and Contingencies

By placing provisions and contingencies in your offer, you provide additional protections for you and your money. The Purchase and Sale Agreement should include a mortgage contingency clause, which states that your ability to buy the house is contingent upon your ability to obtain financing by an agreed upon date. Such a clause ensures that you do not lose your deposit on the house if your loan is not approved.

Other contingencies should include acceptable home, termite, radon and lead paint inspections. The loan closing date and occupancy date should also be indicated in the agreement.

The Home Inspection

What is the value of a home inspection? A satisfactory home inspection, although not required by law, is a major component of purchasing a home. A home inspection examines the condition of the property, and ensures that you are aware of any necessary repairs and potential problems before you buy the home. The buyer selects a licensed home inspector and pays for the inspection. The home inspection will cost a few hundred dollars but should be done; after all, uncovering problems before you buy could save you thousands. For more information, see Step 7: The Home Inspection.

Step 6: Applying for a Mortgage

With an accepted offer in hand, it's time to start shopping for a loan. Even if you're pre-qualified with a lender, an educated home buyer will compare the terms of the different loan options that may be available. This step of the process includes a checklist to help prepare you for the mortgage application process, and provides a detailed discussion on obtaining a mortgage, financing, closing costs, and the Mortgage Commitment Letter.

Step 6: Applying for a Mortgage

Once you've made a successful offer, it's time to address the financing. There are numerous options for financing the purchase of your new home. So how do you decide which is the best for you? Knowledge is power, and with the right information in hand, you'll be sure to make a good decision.

What are the *terms* of a Mortgage Loan?

When shopping for a mortgage loan these are some *terms* ,or factors, to compare among lenders:

- The interest rate offered by the lender
- Whether the rate is fixed or adjustable
- Whether the rate can be locked in when you apply for the mortgage. For how long? At what cost?
- The closing costs
- Other fees charged by the lender. Find out how those fees compare with the fees of other lenders.

Obtaining a Mortgage

The Mortgage application process is filled with uncertainty by the first-time home buyer. Questions such as "What do lenders focus on when I submit my application?" and "What is the right type of mortgage for me?" often add confusion and intimidation to this step of the process. But your questions and concerns are by no means rare. In fact, many of the questions you're asking may have already been answered.

Shopping for a Loan

A major part of the home buying process is shopping for a loan. Even if you have been pre-qualified by a lender, you are not required to select one of their mortgage products. An educated home buyer will compare the terms of the different loan options that various lenders offer, and will then make an educated decision on which program is best for them.

Pre-Qualification vs. Pre-Approval

During your search for a home, you will undoubtedly hear the terms *pre-qualified* and *pre-approved* for a mortgage loan. The term pre-qualified means that a lender has determined that, based on the information you have provided, you would qualify for a mortgage loan.

Pre-qualified, however, does not guarantee you a loan, nor does it guarantee the rate at which the lender will lend you the money. Pre-approved, on the other hand, guarantees (typically for a period of 30 to 45 days) a mortgage loan at a specified rate. Pre-qualification does give the property seller confidence that the prospective buyer will be able to obtain a mortgage. This confidence can greatly affect the seller's decision to accept an Offer to Purchase Real Estate. As a smart consumer, **you should shop wisely for the mortgage loan that offers you the best terms available for your particular circumstances.**

Resources

One place to begin shopping is in a local newspaper, such as the *Boston Sunday Globe* Real Estate Section. Every Sunday, the *Globe* lists 50 to 55 lenders across the state along with their mortgage interest rates. Because the list is revolving, every lender in Massachusetts shows up about once a month. Although you may have a lender in mind, or you may even be pre-qualified (remember, you are not obligated to borrow from a lender who has pre-qualified you), competitive shopping can save you a lot of money over the life of the mortgage.

Other information sources

- Mortgage companies
- Savings and loan institutions
- Federal credit unions
- Other financial institutions

Another good resource is your real estate agent. They usually know area lenders and what programs they are offering.

Finding the best rate and terms may require numerous phone calls and a significant amount of time, but the effort will be well worth it in the end.

Step 7: The Home Inspection

Step 7: The Home Inspection
A home inspection is an objective visual examination of the physical structure and systems of a home, from roof to foundation. It is the equivalent of a physical examination from your doctor, and will allow you to get a true understanding of what problems could potentially arise if you were to buy the home. When problems or symptoms of problems are found, the inspector may recommend further evaluation or remedies. For example, evidence of termites might warrant a detailed pest inspection.

A satisfactory home inspection is a major component of purchasing a home. The buyer selects a licensed home inspector and pays for the inspection. The home inspection will be an additional cost of a few hundred dollars, but can give you the confidence that you know as much as possible about the property.

Remember, the lender's appraiser is not a home inspector!

Why do I need a home inspection?
A home inspection summarizes the condition of a property, points out the need for major repairs and identifies areas that may need attention in the near future. Buyers and sellers depend on an accurate home inspection to maximize their knowledge of the property in order to make intelligent decisions before entering an agreement to purchase or sell.

A home inspection points out the positive aspects of a home, as well as the maintenance that will be necessary to keep it in good shape. After an inspection, both parties have a much clearer understanding of the value and needs of the property.

For home owners, an inspection may be used to identify problems in the making and to learn about preventive measures, which might avoid costly repairs in the future. If you are planning to sell your home, an inspection prior to placing your home on the market provides a better understanding of conditions that may be discovered by the buyer's inspector, giving you an opportunity to complete repairs that will make your home more desirable to potential buyers.

What is involved in a home inspection?
A standard home inspection summarizes findings from a visual inspection of the home's:

Heating system
Central air conditioning system (temperature permitting)
Interior plumbing
Electrical systems
Roof, attic, and visible insulation
Walls
Ceilings
Floors
Windows and doors
Foundation, basement, and the visible structures of the home.
Note: A good inspector will provide you with a written report immediately following the inspection.

A failed inspection allows you to withdraw from the transaction (provided this contingency is in your Offer to Purchase Real Estate or the Purchase and Sale agreement) or renegotiate the sales price.

When you have a home inspection, you should also have the property inspected for termites, radon, lead paint and asbestos.

Where Can I find a Home Inspector?
The Commonwealth of Massachusetts has laws that govern home inspectors and the inspection process. The following resources may be helpful:

Step 8: The Closing Process

Last but not least, it's time to close the loan. The final step in the process walks you through the loan closing, where the title is transferred from the seller to the buyer, and where the financial transaction is completed. Read about the final walk-through, closing costs and what to expect during the closing itself.

Step 8: The Closing Process

You've applied for your mortgage, gone through the home inspection, and signed your Purchase and Sale agreement. Now all you have to do is pick paint colors and decide where to put the couch, right? Wrong. There's still the matter of closing the deal.

A "loan closing" is the transfer of the title from the seller to the buyer, and the settlement of all the monies that are due. The real estate agent or broker, your attorney, the bank's attorney, the seller and their attorney, and of course you, the buyer, will participate. While this can be a stressful undertaking, preparation can ensure that all goes smoothly.

How do I prepare?

Conduct a walk-through or final inspection of the premises within the 24 hours prior to closing to ensure that the property is in an acceptable, move-in condition.

Note: If a problem with the house is discovered after the closing, you have no recourse against the seller of the property; the problem is entirely yours to address. It is therefore important to take a serious look at the property during the final walk-through.

What do I bring to the closing?

A certified cashier's check or treasurer's check is required to cover all closing costs. The closing attorney will give you the correct amount prior to the closing date.

A homeowners' insurance policy, binder, and a paid receipt for the first year's premium, which covers 100% of the replacement cost of your home, is also required.

What happens during the actual closing?

The closing is the actual purchase transaction where the property is deeded from the seller to the buyer. This generally takes place in the attorney's office or at the Registry of Deeds; it can also be done at your lender's offices. To help you understand the logical flow of the closing process, including a description of standard steps and expectations, see the closing timeline below...

a Closing Timeline

You will be contacted by the lender's attorney with instructions on what to bring to the closing. Usually, a driver's license, insurance binder and cashier's check for the remainder of the down payment and closing costs are requested. You should read all documentation before signing, and should feel free to ask the closing attorney each and every question you may have.

Closing Costs

There are a number of costs associated with closing the loan and finalizing the purchase of your new home.

Note: You should consult your attorney for review and confirmation of your HUD-1 Statement, which itemizes all the costs associated with closing your loan (see the link below for more information).

HUD-1 Statement information

The following is a list of the standard costs associated with the closing process:

- Down payment
- Any points involved in the transaction (a point is 1% of the loan amount)
- Attorney fees
- Title search (a check of the title records to ensure that the seller is the legal owner of the property and that there are no liens or other claims outstanding)
- Title insurance (to protect the lender and/or the buyer against loss arising from disputes over ownership of a

property)

- A municipal lien search (to determine that there are no outstanding legal claims against the property that must be paid when the property is sold)
- Appraisal
- Credit report and a certified plot plan

What other costs are paid at closing?

- A full year insurance binder
- Recording fees and transfer charges
- Any prepaid interest due on the mortgage for the month in which you are closing the loan. You must also pay the first year's premium for mortgage insurance, unless you have chosen to finance on a monthly basis

What documents are signed at the closing?

You will be asked to sign several documents at closing. For a reference of the forms you will have to sign at closing, click the link below:

- standard closing forms

Standard Closing Forms

HUD-1 Settlement Statement

The HUD-1 Settlement Statement details the transaction of your home purchase. The form is divided in half, with a left side and a right side. The rows on the left are for the borrower; they detail all money the borrower pays at the closing and all money that is refunded to them, including all money that has already been paid, and all money that must be paid to the lender, seller, attorney, and others. For example, a borrower pays the points, application and processing fees during the closing.

The right side of this form, the seller's side, details the proceeds of the loan (what the seller is due), and perhaps the payoff of the seller's mortgage. The taxes, insurance, (hazard and, if applicable, mortgage insurance) will be detailed here and must be verified by the attorney handling the closing. There is an addendum to the HUD-1 Settlement Statement that shows the breakdown of the escrow funds (an escrow fund is money collected by the bank to pay your tax and insurance bills). Because the closing attorney is an agent *for the mortgage lender,* ***It is recommends that you have your own attorney present at the closing.***

The Mortgage Note

The mortgage note represents your promise to pay the lender according to the agreed upon terms. It is, in effect, a legal IOU. The Note also details the penalties that will be assessed if you default (that is, if you fall behind in repaying the loan), and warns you that the lender can "call the loan" (i.e., require full payment before the end of the loan term) if you fail to make the required payments.

The Mortgage

The mortgage is the legal document that secures the note and gives the lender a claim against your house if you default on the note's terms. In effect, you have possession of the property, but the lender has partial ownership until the loan has been repaid in full. The mortgage restates the date of the final scheduled payment. It states the responsibilities of the borrower to pay principal, interest, taxes, and insurance in a timely manner; to maintain hazard insurance on the property without lapse; and to adequately maintain the property and not allow it to deteriorate. The mortgage also states that if the borrower fails to comply with these requirements, the lender can demand full payment of the loan balance. Moreover, if the borrower defaults, the lender can foreclose on the property, sell it, and use the proceeds to pay off the outstanding loan and the foreclosure costs.

The Mortgage Rider: The Final Truth-in-Lending

Statement. Lenders are required to give this to all loan applicants within three days of receiving their initial application. It discloses the annual percentage rate (APR), which reflects the cost of the mortgage as a yearly rate. This rate may be higher than the interest rate stated in the mortgage because the APR includes any points, fees, and other costs of credit. The Truth-in-Lending statement also sets the other terms of the loan, including the finance charge, the amount financed and the total payment required.

HUD Addendum. A breakdown and projection of escrowed monies that the lender will collect from the borrower for taxes, hazard insurance, and mortgage insurance.

Lead Paint Indemnification or Disclosure. A form, signed by the borrower, in which the borrower agrees to hold harmless the lender and the Agency in the event of lead paint poisoning of any child under the age of 6.

Urea Formaldehyde Foam Insulation (UFFI)

Disclosure & Indemnification. The seller and the borrower both sign this form. The seller attests to the presence or absence of UFFI, and the buyer indemnifies the lender and the Agency based on the seller's statement.

Cranston-Gonzales Disclosure

An estimate that indicates to the borrower the chance (expressed as a percentage) of whether or not the lender that originated the mortgage loan will collect the monthly payments once the loan is closed. Servicing, (i.e., collection of monthly mortgage payments, and in cases of delinquent accounts, collection of past-due payments or initiation of the foreclosure process) is often sold like a commodity to another institution or agent that handles the mortgage through its term.

Deed

The seller must bring the deed to the closing, properly signed and notarized. The deed is the document that transfers ownership from the seller to the buyer.

Other common lender forms include the following:

- Final Mortgage Application
- Taxpayer Certification and Identification
- IRS Form W-9
- Smoke Detector / Carbon Monoxide Certification