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My Florida Home Book

A Guide for First-Time Homebuyers in Florida

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CHAPTER 1

Are You Ready to Be a Homeowner?

Making the Decision to Be a Homeowner

Owning your home is a very exciting accomplishment! It can give you a sense of prosperity and help you to establish "roots" in your community.

For most people, buying or building a home is the largest financial investment they will ever make. As such, it is important to plan carefully, especially financially. However, if you buy a home before you are ready, your homeownership experience can be a negative one.

Are you truly ready to buy a home? To check if you are ready for homeownership, ask yourself the following questions:

If you can answer "yes" to all these questions, you may be well on your way to owning your own home! If your answers are "no" for some questions or you are not sure about your answers, what do you need to do to change the "no" to a "yes?" This curriculum will provide you with useful information to help you assess your current situation and, if necessary, improve your situation so you can purchase and maintain a home.

Owning a Home vs. Renting a Home

In the United States, homeownership is a goal that many people aim to achieve; it is part of the "American Dream" and you can enjoy many benefits

Question	Yes	No
Do you have steady income and stable employment?		
Do you expect to remain in the same location for at least the next few years?		
Are you currently on a budget and able to manage your money effectively?		
Have you planned a new budget so you know how much you can afford to pay for a home?		
Do you have an established credit history? If so, is your credit history favorable?		
Do you consistently pay bills on time or even before the due date?		
Is your debt low enough that you can qualify for a mortgage? If not, can you pay down your debt prior to purchasing a house?		
Have you checked out all the first-time homebuyer financial assistance programs available?		

as a homeowner. However, homeownership is not necessarily the best choice for everyone at every stage of life. Sometimes, renting may be a better option for some households depending on their situation.

To determine which housing option is right for you *at this moment*, you need to know the pros and cons of each one. Let's examine the advantages and disadvantages of renting versus owning a home.

Renting a Home: Advantages and Disadvantages

About one third of American households live in rental housing units. For many, renting might be an inevitable housing choice because of limited resources. However, many people prefer to rent a home rather than owning one for reasons other than financial.

Advantages of Renting a Home:

- **Affordability.** Compared to the cost of homeownership, rental payments generally are lower. You also may be able to find a less expensive option on your next move.
- **Flexibility to move.** Most lease agreements are for one full calendar year, so you are free to move when your lease is over. This is especially good if your income has changed, you need to relocate due to your job, or you are not satisfied with your current housing arrangement.
- **Freedom from maintenance and repairs.** Your rental payments are likely to include most maintenance services. As a renter, you usually do not need to worry about maintenance or home repairs; your rental agreement will spell out any that are your responsibility.
- **In-home amenities.** Most rental homes offer built-in appliances and some rental homes are already furnished. These are items you do not need to purchase when you move in.
- **Community amenities.** Some apartment complexes offer such "perks" as on-site laundry facilities or in-unit washer-dryer connections, a swimming pool, fitness equipment, or a community room that residents can use for entertaining. These "extras" add convenience and more enjoyment of the home.
- **Simpler and faster process.** Compared to a home purchase process, the leasing process can be simpler and faster, depending on where you live.

Disadvantages of Renting a Home

- **Not an investment.** Other than security deposits, once you pay your rental fees, they never come back to your pocket. You cannot build equity or take advantage of tax benefits.
- **Less privacy.** Property owners or managers have keys to your home, and they can enter your home when it is necessary. While rental property owners are required to give reasonable notice, they can enter without prior notice in an emergency.
- **Limited control over your home.** In general, renters are not allowed to make changes to their rental unit. For example, you may not be able to paint the walls with your favorite color, make any structural changes, or upgrade the heating and air conditioning system to save money on your energy bill. Additionally, some landlords prohibit pets.
- **Promptness of maintenance service.** Although maintenance service is a benefit of renting a home, it also can be a headache when repairs are not done on time.
- **Less stability of residency.** Rental homes have rules and regulations that the renter agrees to when signing the lease. Some are particular to the requirements of any given property owner or manager, while others are naturally enforceable under state Landlord-Tenant Law. If you break the terms of the lease, the property owner could evict you even before your lease term expires.

Homeownership: Advantages and Disadvantages

Let's start with the potential disadvantages of owning your own home. Some aspects of homeownership can be unpleasant for some.

Disadvantages of Owning a Home

- **Less flexibility to move.** Compared to renting, it is not very easy to move from one home you own to another. Shopping for a home requires more time and effort than finding a rental unit. In addition, selling your current home can be another problem.
- **Long-term financial commitment.** A homeowner must pay a mortgage over a long time period (up to 30 years), and is responsible for property taxes, which tend to fluctuate. Plus, to protect the home structure and personal possessions from disaster and other threats, a homeowner will need to purchase proper homeowner's insurance.

- **Responsibility for home care and maintenance.** A homeowner is the landlord and is responsible for all the care and maintenance of his/her own home. This requires time and money.
- **Possible decrease in property value.** One of the major reasons people choose to own a home instead of renting one is to build a financial asset. However, the property value can either increase or decrease, depending on the housing market and the economy.

These benefits are what most people expect from homeownership.

Advantages of Owning a Home

- **Building a financial asset.** Compared to rental payments that never come back to your pocket, you are, in a sense, paying yourself, building an asset as your property value increases. With each mortgage payment, you own a little more of the house and are building wealth as your equity increases.
- **Tax benefits.** Supported by government policies that encourage homeownership, mortgage interest and property taxes can be tax deductible, depending on your filing status. There may be other tax benefits for homeowners, depending on certain variables and the current tax code.
- **Sense of security.** Homeownership contributes to a sense of security, especially in retirement years when income normally decreases or becomes more limited.
- **Sense of rootedness.** Settling down in a neighborhood for a longer time gives you a sense of membership and rootedness in the community. Studies have shown a correlation between higher levels of homeownership and increased community stability as well as better school performance in children who live in homes owned by their parents/caregivers. Homeowners stay in their home and invest in their community.
- **General well-being.** Many researchers have proven that homeownership positively influences both the physical and mental well-being of the residents because of the enhanced environmental quality and sense of stability.
- **Control of your property.** The home is yours. You have significantly more freedom to change the house and surroundings as you desire to truly make it your home.

Right Choice for You

To buy or to rent, which is the best choice for you? The answer depends on your current and near-future situation.

Think about any big changes that may happen in your life within the next few years. Is there a possibility you may be moving to another city due to your job or to care for a family member? Are there rumors of layoffs at your current job? Then you may want to consider renting a home so you have more flexibility. If you choose to buy, will you have time and the ability to take care of your home and perform regular maintenance routines?

Most importantly, seriously review your financial situation. Although buying a home may be one way to build wealth, homeownership also requires an initial financial investment and a long-term financial commitment, plus whatever maintenance costs you incur over the years.

Your current financial situation is very important. Do you have a stable income source for at least the next five to seven years, as best as you can foretell? Do you have any major purchases coming up – replacing your vehicle, a child needing braces, a family member needing surgery? These can greatly impact your ability to purchase a home. You also must be reasonably sure of your future financial stability to pay off your mortgage and other costs associated with homeownership.

In the next section, *How Much Can You Afford?*, you will learn how to examine your own financial readiness for homeownership in detail.

How Much Can You Afford?

Your home can be a great financial asset to you. However, to maintain the “asset,” you need to manage any debts and other expenses. If you become a homeowner before you are financially ready, your mortgage payments and other expenses may be more than you can afford. If you fail to pay your mortgage payments on time for several consecutive months, your lender may foreclose on your home.

Whether you plan to buy or build a home, you must know how much you can realistically afford to spend. You need to consider at least the following as the minimum expenses for your home:

- Down payment (one-time payment)
- Mortgage: loan payments and interest
- Property taxes
- Homeowner's insurance
- Mortgage Insurance
- Utilities
- Furnishings
- Home maintenance

Among these, the loan payments and interest are the most critical components for stable homeownership. The lower the mortgage payment and interest, the less financial burden you will need to carry for a long time. Two major factors significantly influence your loan eligibility and the mortgage interest rate for which you might qualify: your credit and debt.

Your Credit and Homeownership

Wise management of your credit helps you achieve many of your goals. Now, it is time to use your credit toward your home purchase. Your credit will influence your mortgage approval and your interest rate. Thus, it is important to know your credit situation prior to meeting with lenders. Knowing where you stand can also be helpful in determining how much home you can afford, since it affects how much you can borrow.

The credit score is a standardized rating system of a person's credit worthiness in comparison to that of others. It is calculated using a mathematical algorithm and is used by lenders and creditors to predict how likely you are to repay debt on time. While there are numerous scoring models, or formulas, used for calculating credit scores, the FICO score is used most frequently by lenders to evaluate mortgage applications.

The higher your credit score, the lower your interest rate can be. Table 1.1 shows interest rates and mortgage payment amounts by credit scores for a $100,000 30-year fixed rate mortgage in Florida.

Table 1.1. Example of Credit Score, Interest Rate, and Mortgage Payment

Credit Score	Interest Rate[A]	Monthly Payment[B]	Total Payment[C]
760 – 850	2.829%	$412	$148,320
700 – 759	3.051%	$424	$152,640
680 – 699	3.228%	$434	$156,240
660 – 679	3.442%	$446	$160,560
640 – 659	3.872%	$470	$169,200
620 – 639	4.418%	$502	$180,720

[A] Rate as of April 14, 2020, from https://www.myfico.com/loan-center/home-mortgage-rate-comparison/default.aspx
[B] Monthly mortgage payment for a $100,000 30-year fixed rate mortgage in Florida
[C] (Total payment) = (Monthly payment) × 360 (months)

The monthly payments in Table 1-1 are calculated based on a total mortgage amount, interest rate, and the total number of mortgage payments a person would make on a 30-year loan. The total payment is the amount that a person must pay throughout his/her mortgage period. In this case, the amounts in the last column were calculated by multiplying "monthly payment" by 360 (360 months over 30 years).

To understand how much one's credit score can influence his/her total payment, let's compare the total payment amount a person with a credit score of 770 will eventually pay over 30 years with the total amount a person with a credit score of 620 will pay. A person with a 770 credit score will pay a total of $148,320 over a 30-year term, while a person with a 620 credit score will pay $180,720 during the same length of time. Considering the initial mortgage was $100,000, the person with a credit score of 770 pays a total of $48,320 in mortgage interest. However, a person with a credit score of 620 pays $80,720 in interest, $32,400 *more* than the other

person's accrued interest. This is why we emphasize the importance of credit management. It saves you money!

Do you know your current credit score? If not, you can purchase a copy from Equifax, TransUnion, or Experian, the three major credit reporting agencies in the U.S. If your credit score is lower than you would like it to be, follow these steps to raise it:

1. **Stay current on all your debt.** If you are not current, contact your lenders or those issuing bills to discuss repayment. Pay bills on time!
2. **Pay down any outstanding debt.** The more you owe for other debt (car payments, credit cards, loans, etc.), the less you can afford to borrow on your mortgage. Paying off debt will save you money on interest payments and free up that money to put toward your house.
3. **Do not apply for other credit or raise your credit limit on existing accounts during this time.** These actions may lower your credit score and affect your mortgage approval. Mortgage lenders can be concerned by seeing too much activity, especially for first-time homebuyers.
4. **Work with a credit counselor or Extension Educator to plan your budget and debt repayment.** This can help you communicate with a potential lender about your situation.

Your Debt and Homeownership

Mortgage lenders use a **debt-to-income ratio**, which is the percentage of your income that pays debt, to either approve or reject your mortgage application. For example, if a household's gross monthly income is $4,000, and the total combined monthly housing expense and other debt payments is $2,000, the debt-to-income ratio of the household is 50%. Monthly debt includes:

- Total mortgage payment: **P**rincipal, **I**nterest, **T**axes, **I**nsurance, as well as **M**ortgage Insurance and Homeowners **A**ssociation fees (**PITI-MA**)
- Any other loans (car, student, etc.)
- Credit card payments
- Child support
- Alimony

In addition to these, some lenders may be concerned about mortgage applicants having substantial access to open lines of credit like credit cards, since some homebuyers will purchase household items on credit once they obtain a mortgage. One issue that often arises with homeownership is the desire to fill every room in the home with furniture. This tends to be a popular use of consumer credit when purchasing a home. It is critical to avoid this trap. Taking on too much consumer debt too soon can leave a family with no resources for emergencies or other unforeseen expenses that come with homeownership, such as an air conditioner repair.

Also, lenders check a borrower's credit reports the day of closing to make sure nothing has changed in the borrower's financial situation since the time they were approved for the loan. There have been instances where a furniture or other purchase on credit raised the borrower's debt level above the amount acceptable to the lender and the lender withdrew the mortgage approval. Do not jeopardize your home purchase with other purchases on credit!

Housing Affordability Calculation

A key step in preparing to buy a home is to know how much you can realistically afford *before* you begin looking. Lenders calculate two ratios when evaluating a borrower's mortgage application. The first is the **housing expense ratio**, also known as the "front-end ratio." This is the percentage of gross income used for housing. The second ratio is the **total debt ratio**, or "back-end ratio"; this includes the percentage of gross income used for housing *and* all other debt. Different types of loans use different front-end and back-end ratios.

Let's walk through the process of calculating your maximum mortgage payment and mortgage amount.

WORKSHEET 1: Calculating Your Gross Monthly Income

Lenders want to know what your gross monthly income is, that is your income before any taxes or payroll deductions are made. Include all other sources of income if they will continue for three years. List the income of each borrower.

	Average Monthly Amount	
Income	**You**	**Co-Borrower**
Gross Pay	$	$
Gross Pay (Second job)	$	$
Regular Overtime	$	$
Bonuses/Tips	$	$
Alimony, Child Support, or Maintenance Income	$	$
Pension/Social Security Benefits	$	$
Dividend/Interest Earnings	$	$
Business Earnings	$	$
Veterans Administration Benefits	$	$
Unemployment	$	$
Public Assistance	$	$
Other	$	$
Total for each borrower	$	$
Grand Total = Gross Monthly Income	**$**	

WORKSHEET 2: Calculating Your Monthly Debt Payments

Lenders want to be sure that your income will be able to cover your mortgage payments as well as any other monthly debt you have. Be sure to include the debts of all borrowers.

Debt	Average Monthly Amount	
	You	**Co-Borrower**
Car Loan	$	$
Installment Loan Payment (Furniture, appliances, etc.)	$	$
Credit Card 1	$	$
Credit Card 2	$	$
Credit Card 3	$	$
Student Loan	$	$
Medical/Health Care Payment (Not insurance)	$	$
Other	$	$
Total for each borrower	$	$
Grand Total = Gross Monthly Debt Payments	**$**	

Lenders will evaluate your debt-to-income ratio (DTI) to determine if you can afford another payment. This is calculated by dividing your total monthly debt payments by your gross monthly income, giving you a percentage.

Debt-to-Income Ratio	
All monthly debt payments ÷ (divided by) Gross Monthly Income (from worksheet 1) = Debt-to-Income ratio percentage	$________________ ÷ $________________ =________________%

WORKSHEET 3: Calculating Your Maximum Mortgage Payment and Mortgage Amount
Lenders will calculate your maximum mortgage payment allowed using the ratiomethod. This method looks at your income and debts. This worksheet uses 33% for the housing expense ratio and 38% for the total debt ratio. Typically, affordable mortgage products that target first-time homebuyers use these ratios.

Housing Expense Ratio	
Total Gross Monthly Income (from worksheet 1) × 33% = Maximum Mortgage Payment (PITI and HOA fees)	$__________ × .33 = $__________ (a)

Total Debt Ratio	
Total Gross Monthly Income (from worksheet 1) × 38% = Maximum Mortgage Payment (plus all other monthly debt payments)	$__________ × .38 = $__________ (b)

These calculations show you the maximum (a) mortgage payment and (b) mortgage payment plus all other monthly debt payments allowed. Next, to determine how much is left over for your mortgage payment, we will subtract your current monthly debt payments from the maximum mortgage payment plus all other monthly debt payments (b).

Minus Current Monthly Debt Payments	
Maximum Mortgage Payment plus all other monthly debt payments (b) **–** (minus) Gross Monthly Debt Payments (from worksheet 2) = Maximum Mortgage payment	$__________ **–** = $__________ (c)
Choose the lower of (a) or (c). This is the maximum allowable for your mortgage payment given your current income and debt.	$__________ (d)

If you recall, your monthly mortgage payment is made up of four items called **PITI** – principal, interest, taxes, and insurance. To calculate your principal and interest portion of the mortgage amount (d), we need to multiply (d) by 80 percent.

Principal and Interest Portion
$__________ (d) × .80 = $__________ (e) = (P & I portion)

Next, you will determine the maximum loan amount by dividing (e) by the P and I factor based on interest rates currently being offered by mortgage lenders for 30-year fixed rate loans.

<table>
<tr><th>Interest Rate</th><th>P and I Factor for 30-year loan</th><th>Calculation</th></tr>
<tr><td>3.5%</td><td>0.00449</td><td rowspan="12">$________________ (e)
÷
$________________ (P and I factor)
= $________________ (Maximum Loan Amount)</td></tr>
<tr><td>4.0%</td><td>0.00477</td></tr>
<tr><td>4.5%</td><td>0.00507</td></tr>
<tr><td>5.0%</td><td>0.00537</td></tr>
<tr><td>5.5%</td><td>0.00568</td></tr>
<tr><td>6.0%</td><td>0.00600</td></tr>
<tr><td>6.5%</td><td>0.00632</td></tr>
<tr><td>7.0%</td><td>0.00665</td></tr>
<tr><td>7.5%</td><td>0.00699</td></tr>
<tr><td>8.0%</td><td>0.00734</td></tr>
<tr><td>8.5%</td><td>0.00769</td></tr>
<tr><td>9.0%</td><td>0.00805</td></tr>
</table>

These calculations are based on one set of ratios (33% for housing expense and 38% for total debts). These ratios may vary depending on the mortgage products you are eligible for. These calculations do not include all your monthly expenses, such as groceries and utility bills. Therefore, consider your total cash flow situation to determine if you can afford a home and mortgage payments.

Impact of Monthly Debt on Housing Affordability
Table 1.2 compares a person whose monthly debt other than PITI averages about $100 with a person carrying $300 monthly debt other than PITI to show you how much just a $200 difference in monthly debt can influence housing affordability. In both cases, we shall assume the following:

- Annual income: $20,000
- Maximum debt-to-income ratio other than PITI: 38%
- Monthly debt besides PITI in dollar amount: $100 for Person 1, $300 for Person 2
- Principal and interest (PI) make up 80% of the total PITI
- 30-year mortgage with 6% interest rate
- P and I Factor for 30-year loan: 0.00600
- Down payment: 10% of home price

As you can see, a $200 difference in monthly debt can make a significant difference in the price of the home you can afford. So, find ways to reduce your monthly debt. If you already have one or more long-term loans, such as a car loan or student loans, and/or have credit card debt, work to pay off those debts as quickly as possible. Pay more than the minimum monthly payment and avoid using credit cards. The less you owe on other debt, the more you have available to put toward your house.

Pre-qualification versus Pre-approval
Once you have determined you are ready to be a homeowner, where do you start? Prior to starting the search for your home, you will want to see if you can qualify for a mortgage. However, it is important for you to understand the difference between being *pre-qualified* for a mortgage and being *pre-approved* for one.

Pre-qualification is an initial assessment of your ability to qualify for a loan. It is a quick and simple discussion with a lender about your credit, income, and assets. It is not an analysis of your credit or a detailed look at your ability to purchase a home. However, it allows you to discuss issues and options with the lender. It is a helpful starting point.

Pre-approval is a more robust process, and, as a buyer, may give you more leverage in the home purchase process. During this process, your credit is run, income and assets are verified, and a defined loan amount is provided to you. Pre-approvals are valid for approximately 120 days and, when combined with a purchase and sales agreement, show the seller you are serious.

Taking the time to secure pre-approval allows you to address any problems with your credit report, demonstrates you have done your “homework” by making sure your credit and finances are in order before house-hunting, and can give you an advantage over a buyer who is not pre-approved. Some real estate agents require a letter of pre-approval from a buyer before they will accept an offer.

Table 1.2 Comparison of Housing Affordability with Different Amounts of Debt

Description	Person 1	Person 2
a. Gross annual income	$20,000.00	$20,000.00
b. Gross monthly income (=a÷12)	$1,666.67	$1,666.67
c. Maximum allowable combined debt amount (=b×0.38)	$633.33	$633.33
d. Debt other than PITI	$100.00	$300.00
e. Maximum allowable monthly PITI (=c−d)	$533.33	$333.33
f. Maximum allowable PI (=e×0.80)	$427.00	$267.00
g. P and I Factor for 30-year loan	0.00600	0.00600
h. Estimated mortgage amount (=f÷g)	$71,166.67	$44,500.00
i. Affordable home price (=h÷0.90)	$79,074.08	$49,444.44

CHAPTER 2
Finding a Home for You

What Are Your Housing Needs?

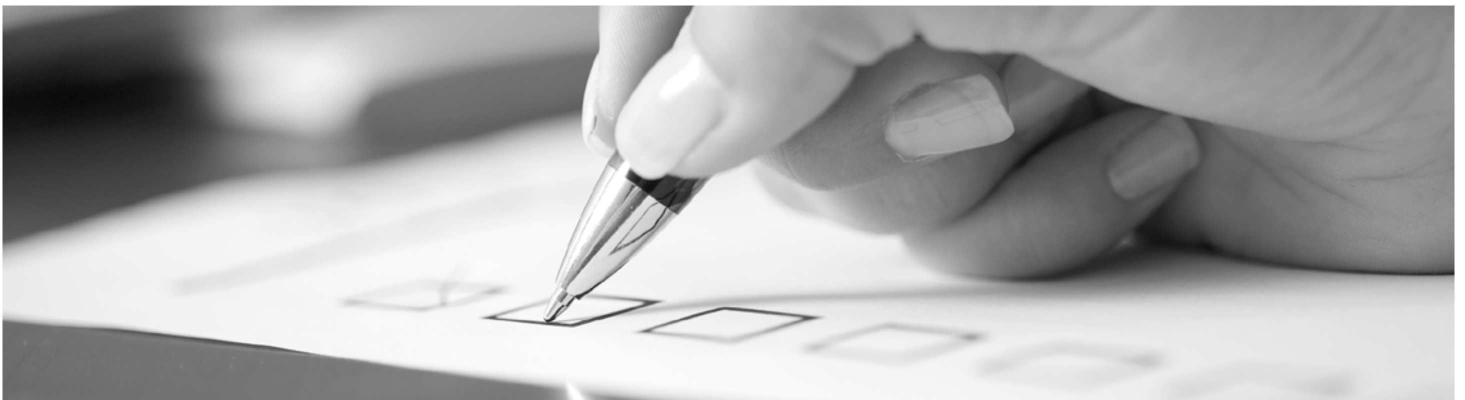
To make a realistic house selection, you must first determine how much you can truly spend on housing. Once you know this, you can focus your search on homes that are in your price range. If resources are limited, you may not be able to have all the great features you desire in your prospective new home. So how do you prioritize?

Housing Needs Checklist
To get the most benefit from your housing dollars, it is wise to carefully define and prioritize your housing needs *before* you begin house-hunting. How many bedrooms and bathrooms do you need? Do you need a garage or carport? Will a one-car garage be large enough or do you need space for two cars? Do you need a workshop? What size kitchen do you require? How important are certain overall features to you and/or your family?

The Housing Needs Checklist on the next page will assist you as you think about your needs and the importance of certain features. You can include more features and rate them as well. You may want to make several copies of the checklist so each member of the family can be involved in the decision process. Rate the features as:

Need	Description
Must Have	This feature is essential, and I would not consider a house without it.
Prefer to Have	This feature is not essential, but I prefer a house with this feature over a house without it.
Does Not Matter	Not an important feature; not a deal-breaker.
Do Not Want	I do not want a house with this feature.

Each person should read the list of possible needs and consider how essential each item is to him/her. Before you mark a feature as "Must Have," ask yourself why. Be certain your reason is compatible with your current lifestyle. For example, if your job keeps you away from home often, you may not have time to maintain a large yard. It is worth your time and effort to think about what you *need* versus what you would *like*. This will help to clarify and focus your search for the house that will best fit your family, increasing the likelihood you will be satisfied with your purchase both now and in the future.



WORKSHEET 1: Housing Needs Checklist

Options	Must Have	Prefer to Have	Does Not Matter	Do Not Want
Location/Neighborhood				
Convenient to school				
Convenient to work				
Friendly neighbors				
Safe neighborhood				
Quiet street				
Nice curb appeal				
Outdoor Space				
Large private lot				
Sidewalks				
Fenced yard				
Garden				
Pool				
Indoor Space				
More than two bedrooms				
More than three bedrooms				
More than one bathroom				
Space for children				
Space for entertaining				
Indoor space for hobbies				
Space for washer/dryer				
Dishwasher				
Kitchen appliances				
Storage space				
Fireplace				
Attached garage				
Other				
Privacy				
Quality construction				
Low maintenance needs				
Low utility costs				
Warranties				

Options	Must Have	Prefer to Have	Does Not Matter	Do Not Want
Additional Features (List your own features)				

Your Home Location
Housing needs and priorities may vary by household. However, time and time again, we are reminded of the three most important rules in the world of real estate: location, location, and location!

The location of a home can have various meanings. It can be urbanity (rural or urban location), neighborhood features, characteristics and quality, the relationship of your home to the neighborhood, and the distance to your work, school, shopping, and other amenities. Many people believe home location represents social and economic status, as in the old phrase, “Where you live is who you are.”

Location of your home does have a tremendous impact on your home value. The same house may sell for thousands more or thousands less within the same city, depending upon the address. The location is not as critical in smaller communities or in rural areas as it is in larger communities or in urban areas. However, environmental factors in either setting may affect resale value.

The schools your children will attend can be a very important factor when considering where to purchase. In more urban areas, a difference of a mile can mean the difference between your preferred school or one with limited programs for your children’s needs or interests. Be aware that school districts are subject to change as community needs change.

Your home’s location also can impact the amount you pay for homeowner’s insurance. Your premium is based, in part, on the average response time of the nearest fire department to your house. If you live in town, the response time generally is shorter than if you live in a more remote location; the sooner firefighters can arrive and start extinguishing a blaze, the less damage your house is likely to sustain, resulting in a lower cost to the insurance company to settle your claim. Your home’s proximity to a fire hydrant also can be a factor in your premium.

How close do you want to live to your daily activities? Do you prefer a short commute to work, school, and recreational activities or is a longer commute time okay?

Since there is quite a bit at stake, you need to consider the location very seriously. Do you have a particular neighborhood or location in mind for your home? What is your motivation for choosing that location?

When you shop for your home location, try to visit the neighborhood several times at different times of day and days of the week: morning, day, night, during the week, and on the weekend. If you visit the neighborhood between 8:00 AM and 5:00 PM on a weekday when most people are at work and children are in school, you may not get a true sense of what the neighborhood is really like – it may have a lot more traffic and noise on the weekend when residents are home. Safety is another factor to consider with location. Check with local law enforcement about the crime activities in your prospective neighborhoods or areas.

Buying an Existing Home vs. Building a New Home

Once you make the decision to be a homeowner, the next decision is whether to buy an existing home or to build a new home. Many factors may play into your decision - including budget, personal preference, or

other personal situation, or even the housing market in general. For example, if you do not find a home that meets your particular needs, you might decide to build rather than go with an existing home. If you own a parcel of land, you might prefer to build. Timing is another important factor; how much time do you have before you must move?

Unsure of which to choose? Let's talk about the pros and cons of each option.

Advantages and Disadvantages of Buying an Existing Home

Beginning with the advantages and disadvantages of buying an existing home, it is generally less expensive and faster to purchase an existing home than to build a new one. However, for your protection, you should have the home thoroughly inspected by a qualified, licensed professional to avoid unexpected maintenance and repair costs.

Advantages of Buying an Existing Home

- **Less expensive and faster process.** The first advantage of buying an existing home, either newly constructed or an older one, is you often save time, effort, and money. The concept is similar to purchasing ready-made clothes rather than having a personal tailor craft each of your garments specific to your measurements. By purchasing an existing home, you do not need to worry about the long and complicated building process, nor the expense of construction delays.
- **Benefits of an established neighborhood.** If you buy a home in an established neighborhood, you can see the atmosphere and the people who live there before you buy the home. You may have better access to community services, shopping, schools, and other amenities than in new areas that are recently developed or still in the development phase.

- **Savings on fixtures and furnishings.** Often, fixtures and furnishings, such as appliances, draperies and rods, window shades, and storage devices, are already in place and sold with the house, saving you money.

Disadvantages of Buying an Existing Home

- **Difficulty in finding that "perfect" home.** It may not be easy to find an existing home that satisfies your housing needs and expectations. You may need to make trade-offs among your needs based on your priorities.
- **Potential maintenance and repair problems.** In general, the older a home is, the more existing or potential problems it could have. However, the condition of a house heavily depends on how well it has been maintained. Moreover, it does not mean that recently built homes are free of any problems either. Do not make assumptions based merely on the age of the building and check features carefully when looking at existing homes. Sometimes, repairing problems you have overlooked may cost you more than you can afford. Please see the section, Tips on Shopping for an Existing Home, later in this chapter for things to look for in existing homes.

Advantages and Disadvantages of Building a New Home

If you cannot find an existing home that meets your housing needs, designing and building your own home could be another option. However, there are some inconveniences you most likely will experience when you build a new home. Let's think about the advantages and disadvantages of building a new home.

Advantages of Building a New Home

- **Better fit for your housing needs.** You can select the floor plan and specific features you need to meet your needs.
- **Newer and better structure.** A new building structure usually incorporates construction technologies that meet the latest building codes for greater protection against damage from hurricane-force winds.
- **Better systems and features.** Some features are not easy to add after construction, including wall insulation and wall bracing in the shower area for installation of grab bars. A new home often is better insulated and has more energy-efficient features than older homes, resulting in lower utility bills. Newer electrical wiring and plumbing systems, too, may require less maintenance.

Disadvantages of Building a New Home

- Complicated building process. As mentioned before, building a new home can be very complicated and sometimes overwhelming if you are not familiar with the process. You will have to make numerous decisions about paint, flooring, windows, cabinetry, and other features that you do not need to make if you buy an existing home. In addition, there are many external factors that affect home construction and may change while your new home is still under construction: climate, price and availability of construction materials, and so on.
- Longer process time. Building a home requires more time. It takes more time to organize and months to build. Expect delays due to weather, backordered materials, or unexpected problems. Unless you have time to invest, you may not want to wait for a home to be built.
- More expensive. Building a home can be more costly than buying an existing home because the cost of construction rises annually. Also, as state and local building codes change, a new home must meet current building codes and, in most cases, this increases the cost.
- Larger down payment. Building a home typically requires a larger down payment. Some lenders will allow you to build with five percent down, but most require a 20 percent down payment; some lenders may require as much as 25 percent down. It also is harder to be approved for a construction loan. They are considered a higher risk because the house, the collateral for the loan, is under construction, so the lender wants to make sure you won't walk away from the project. The larger down payment means you have more of your own money invested in the project, so you are more likely to see it through to completion.
- Unpredictable neighborhood. If you build your home in a new area that is not fully developed yet, it may be risky because you won't have an established neighborhood. If you have empty homes or lots next to yours, you won't know who will be moving in next to you.
- Unpredictable property value. Because a new home does not have a property value history, you won't know how your home might appreciate in value. If you are building in an area that has yet to be fully developed, future development may affect your property value positively or negatively.

Buying an Existing Home to Remodel

Buying a home to remodel can have several pitfalls. The biggest one is overspending for the neighborhood or location. The value of adding on and major remodeling can be uncertain. Increasing the value of a house more than 15% over the top value in the neighborhood is seldom a good financial investment. If you buy a house in a neighborhood where the average home sells for $130,000 and then add a $30,000 addition, you are highly unlikely to sell your house to a family looking for a $160,000 house. Such buyers would instead be looking in neighborhoods where the average home sells for $160,000. Another guideline to follow is that the cost of any improvement should be less than 60% of the cost of building a new home of equal size and quality after the addition.

Except for maintenance and basic improvements to keep the house in good condition, improvements and remodeling should be only for your own family's comfort and satisfaction. The financial return will usually yield no more than 75% of your investment. Remodeling a home also can be a nightmare if the owner has limited knowledge and skills in remodeling techniques and/or working with contractors.

Floor Plan

The actual layout of the house and organization of space affect how your family lives in the house and how the members relate to one another. Whether you are buying an existing home or building a new one, it's wise to sketch a floor plan and analyze it. When you draw up a floor plan, consider what types of rooms and spaces you need, both inside and outside, and their number, size, and location.

Number and Size of Rooms/Spaces

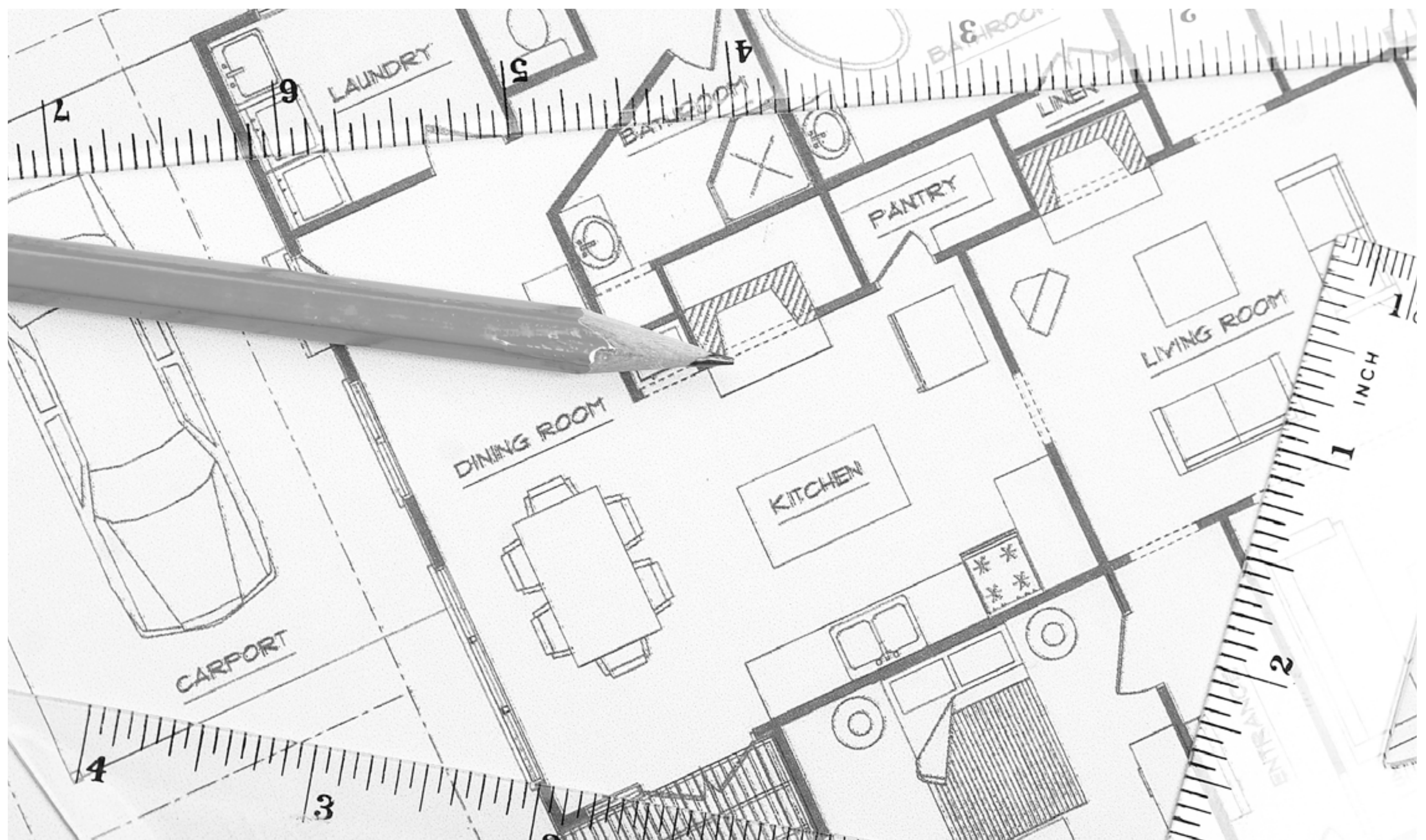
As you have already identified features you would prefer using the Housing Needs Checklist, make a list of room types and spaces you need. Then, write how many of each room and space you need to serve your household's needs. How many bedrooms or bathrooms do you need? Having a second bathroom can save a lot of time and stress if everyone must leave the house at the same time in the morning. A side note: A three-bedroom, two-bath house tends to have a higher resale value than a three-bedroom, one-bath, or two-bedroom, one-bath house. How many closets or storage spaces do you need, both

inside and outside? Do you need a dining room or an eat-in kitchen, or both?

After you identify the types and number of the rooms and spaces, think about size. Consider both total home size and the size of each room or space. The size depends on the number of household members and their activities in each space.

Here are some additional considerations:

- Kitchen. This is one of the major selling features of a house. Think about your lifestyle – do you enjoy cooking and entertaining? A kitchen with an adjoining great room allows you to watch the game or be part of the gathering while preparing food.
  - Appliances and equipment. How much space do you need for the mixer, coffee maker, toaster, and microwave oven?
  - Workspace. How much counterspace do you need to work comfortably with others in the kitchen? An island may or may not be a feasible solution – a rule-of-thumb is to allow at least three feet between the counter and each side of the island for safe, smooth traffic flow.
  - Cabinets, pantry, or other storage spaces. How much space do you need for dishes, cookware, and food items?
- Storage spaces.
  - Closets. Some house have small closets while others have spacious walk-in closets. How much space do you need for clothing, shoes, and accessories? What about linens? You can multiply storage space by adding a second rod beneath the existing rod or hanging an organizer on the inside of the door. Use vertical space to maximize the storage capacity of closets.
  - Storage for seasonal items or items you use only occasionally but need to keep. Holiday decorations or luggage.
  - Storage for gardening equipment and tools. Lawn mower, leaf blower, rake.
- Furniture placement, use, and rearrangement options.
  - Furniture that you already have or plan to have in each room. Measure each room and your furniture dimensions.
  - Enough space to use the furniture and still be able to move around it freely. Will your bed, dresser, and nightstand fit in the master bedroom, or will your bed alone take up most of the room?



- Possible rearrangement options when needed. If you need or want to rearrange the sofa, recliner, and entertainment center, will the room allow it or are you limited to one arrangement?

Layout of Rooms/Spaces

After you determine the number and sizes necessary, think about the layout of the rooms relative to each other. Consider which rooms/spaces need to be close to each other, as well as which rooms/spaces need to be further apart. For example, you may prefer a split plan, in which the master bedroom is on one side of the house and the children's bedrooms are on the other side. If a family member needs to sleep during the day, a sleeping area away from the family room may minimize disturbances when the kids arrive home from school. If you are looking for a multi-story house, consider one with at least a three-quarter bath on the main floor. This provides a toilet, sink, and shower for a family member or visitor to use if they are unable to climb stairs.

Consider, too, the relationship between outdoor and indoor spaces. Do you require direct access to your garden from the kitchen? If you need an attached garage, where do you want to have it? Many garages open into the kitchen, which saves steps when unloading groceries. You can draw a rough, hand-sketched diagram to plan the layout. Use Worksheet 2 on the next page to sketch your layout.

Tips on Shopping for an Existing Home

Some important features will require your close attention to avoid unexpected and possibly extreme repair costs after you sign the contract. Most of all, verify the construction quality. It is very easy to confuse the quality of the home structure with maintenance problems. A house may need a face-lift, but still be relatively sound in terms of the structure.

The following is a list of some of the features you need to check for very carefully:

- Drainage issues. Drive by the home during a heavy rain – is the water routed away from the front door and porch area or is it pouring off the roof like a waterfall? Gutters and downspouts may need to be installed. Stop by a day or two after the rain has ended and check the yard for large puddles or other areas of standing water. This can indicate problems with the ground's slope and stormwater runoff - water that pools around the foundation can undermine it and standing water is an ideal breeding ground for mosquitoes.
- Structural defects. Inside, check the floors to see if they are level. Uneven floors could be a sign of settling due to age, problems with supporting joists, or soil quality issues. Do the marble test—a marble should not roll when placed on a hard-surface floor.
- Signs of water damage. Open cabinet doors and check under the sink. Look for unevenly painted ceilings or walls, mildew odors, or evidence of re-plastering or re-tiling. These could be signs of former water damage or ongoing leaks.
- Lack of water pressure. Turn on both hot and cold faucets in the shower and sink and check the flushing action of the toilet at the same time. A change in pressure may indicate poor plumbing.
- Faulty plumbing. Find out the age of pipes and what kind they are (copper or PVC). Older pipes may be made of lead, have corroded, or have significant build-up over years of use. Determine the source of water—private well or municipal water supply. If a well, ask for records of when it was last tested. If a septic system is used, find out when it was last inspected and be wary if there any odors coming from it or if the ground around it is soggy or spongy. Bring a cup to taste the water.
- Inadequate wiring. Be sure the electrical service will handle everyday household needs as well as appliances. It is wise to have a professional inspector or electrician check this for you. If the house is very old and still has its original wiring, you may have a difficult time obtaining homeowner's insurance due to the fire risk.
- Other electrical problems. Look for obvious signs of malfunctions, such as flickering lights, outlets, and switches that don't work properly. Also, take note of the number of outlets available in each room.

WORKSHEET 2: Layout of Rooms/Spaces

- **Energy efficiency features.** The cost of operating the home is an important factor in making the purchase. Take the time to find out last year's air conditioning and heating bills, the age and energy efficiency of the heating and cooling system, and if it is adequate for the size of the home. Check the home's insulation. Required by Florida Building Code, Florida homes built in 2012 or later should have insulation with a minimum value of R-13 in frame walls, R-30 flat for ceilings. The higher R-value means greater insulation effect. This R-value varies by insulation materials and the thickness of the installation. You can verify the R-value of insulation in each location yourself (see sidebar), or you may hire an insulation contractor to inspect and advise if the insulation of the house is adequate and properly installed.
- **Termites.** Find out if annual termite inspections have taken place and request the results of the last inspection. In Florida, information on termite inspections, treatment, and re-inspection or contract renewal dates are required to be posted and are generally found on the electric panel or near the water heater. If no termite inspection has been done within the past year, you can negotiate with the seller to have an inspection performed at the seller's expense and to receive a copy of the results. Termites can cause a tremendous amount of costly damage to a structure, so you certainly don't want to purchase a home with termites or termite damage. Once you purchase a home, you will need to budget for an annual termite inspection and a termite bond agreement with a pest control company to protect your home.

How to Calculate the R-Value of Insulation

- First, measure from where the drywall meets the joist to the top of the insulation. Then, determine the type of insulation in the area: loose, light-weight yellow, pink or white is likely fiberglass; dark gray to nearly white material, often with black specks is probably rock wool; small, gray fibers or flat pieces indicate cellulose; and blankets of light-weight yellow, pink or white material (often with a paper backing facing the home's interior) is fiberglass batting.
- Next, calculate the R-value of your attic insulation by multiplying the measurement you took by a factor based on the type of insulation you have in the attic. Using a factor of 2.5 for loose fiberglass; 2.8 for rock wool; 3.7 for cellulose; and 3.2 for fiberglass batting.

For example, if your home has cellulose insulation at a depth of 8 inches between the joists, the attic insulation has an R-value of 3.7 times 8, or 29.6

Reference: Oak Ridge National Laboratory
https://www.ornl.gov/

CHAPTER 3

The Home Purchase Process

General Home Purchase Process

In general, the home purchase process flows through the following eight stages:

Stage	Description
Stage 1	Pre-Purchase Preparation
Stage 2	Mortgage Pre-Approval
Stage 3	Home Selection
Stage 4	Purchase Offer
Stage 5	Mortgage Financing
Stage 6	Home Inspection
Stage 7	Title Search
Stage 8	Closing the Deal

First, you prepare for the home purchase by evaluating your readiness for homeownership, as outlined in Chapter 1. After checking your readiness and budget, you may want to get preapproved by a lender to secure your mortgage from the beginning. Mortgage preapproval is not for a specific house but, rather, for a specific loan amount you may borrow to secure the home purchase. Once preapproved, you shop for a home that meets your determined needs and is within the preapproved loan amount. Upon finding the right home, you make an offer and, once you have a signed purchase agreement with the seller, you start the approved mortgage financing. You arrange for a thorough home inspection and close the deal.

In each stage, you may choose to seek professional help rather than attempting the task yourself. You will learn more about working with housing professionals in Chapter 4. Mortgage financing is explained in more detail in Chapter 5.

Making a Purchase Offer

When you buy a home, bargaining is the name of the game. There is the seller's "asking price," much like sticker price on a new car, and then there's the price you're willing to pay. The price you both agree upon is usually somewhere in the middle. Once you find a house you want, the negotiation begins. Negotiating to buy a home is a way of telling the seller the price and conditions you are willing to settle on for the house. Realtors often mediate the negotiations.

Your purchase offer is a legal contract. You'll need to fill out an official "Residential Contract For Sale and Purchase," a contract drafted by the Florida Realtors and The Florida Bar. The real estate agent will have this form, or you can contact a real estate attorney to have a contract prepared. Your Offer to Purchase will list a description of the property, the purchase price you are willing to pay including the amount of the initial deposit, terms and conditions of the sale, the date for a final walk-through inspection, a closing date, and a date for possession.

Considerations to Make Before Signing an Offer to Purchase
The following are just some of the factors to consider before you decide on an offering price:

What is the assessed value?
This figure is available at the local tax assessor's office. You must know the exact address or location of the home to find the correct assessed value. The **assessed value** is usually lower than the **market value** (fair selling price), sometimes considerably so, but it gives you a dollar amount to work from when making your offer.

Get a market analysis report
A real estate agent can run a market analysis of the most recent sale prices of homes similar to and in the same area as the one in which you are interested in buying. This analysis gives you an idea if the home is worth the asking price or if the price should come down.

The conditions of the housing market may favor buyers or sellers. A “buyer’s market” is when the supply of available homes is higher than the numbers of potential buyers. Houses for sale tend to sell for less and sit on the market for a longer period of time before receiving an offer. By contrast, a ‘seller’s market” exists when there are fewer homes available and a greater number of potential buyers. Houses sell more quickly and for higher prices. Buyers may need to make offers on several homes before one is accepted by the sellers.

What is the condition of the home?
Consider the cost of necessary repairs you will have to pay for once you become the owner. Will the roof or heating and cooling system need to be replaced soon? These costs will help back up your reasons for offering or requesting a lower price for the home. The home inspection will provide you with a report on the condition of the home and its features.

Why is the house for sale?
Find out how long the house has been for sale and why. For example, the seller may need to move to another city, or there may be financial or other issues that cause the owner to be anxious to sell. If the house has been on the market for a while and hasn’t sold within a “reasonable” amount of time, the seller may be willing to accept a much lower price.

How much did the seller pay and when?
Did the seller just buy the home? Are prices keeping up with what the seller paid, or have they changed unfavorably?

How much equity does the seller have in the home?
Equity is the value of the house minus the amount owed on it. The more equity the seller has in the home, the more flexibility they have in coming down in price. If the seller hasn’t owned the house for very long or has a second mortgage on it, they have to clear a certain amount to pay off the mortgage debt so they may not be able to come down much on the price they will accept. On the other hand, if the mortgage is paid off, there is no mortgage debt to be paid from the sale proceeds so they may be more open to accepting a lower offer.

What is the seller willing to offer with the asking price?
Sometimes, the seller is willing to add other incentives with the deal, such as paying some or all of the closing costs, giving money back at closing for repairs, etc.

Negotiating Tips
During the home purchase process, you can expect to haggle back and forth over the price and contingencies. Be willing to bend a little, but also stand firm on the things you want. Most agreements require two or three rounds of offers and counter offers before the deal is sealed. Take your offer seriously, because once the seller signs the agreement, it becomes legally binding.

Do not respond to any suggestions or counteroffers unless presented in writing. For example, the

real estate agent may tell you your offer is too low and insist on a written counteroffer with the price and changes that would be acceptable in the event the seller refuses your first offer. Do not feel pressured into raising your price on the spot.

Go back and look at a house several times, if necessary. You can’t really see everything about a house in one visit. Consider asking a friend whose opinion you trust to go with you to serve as an objective sounding board. Make a list of the things you like and dislike about the house. This will give you additional tools for making an offer and help you to compare the house against your Housing Needs Checklist in Chapter 2. Take your time and use common sense. Ask questions so you may make informed decisions. If the seller agrees to make certain repairs, be sure the details are spelled out in the written contract of sale. Also, insist upon your preference for a contractor so the work is completed by someone you know and trust and all repairs meet your approval.

Earnest Money
When making an offer to purchase a home, the buyer will include a check for the earnest money deposit. The earnest money deposit is to show the seller the buyer intends to purchase the home. The amount of the earnest money deposit typically varies between one percent and ten percent of the sale price. The higher the amount, the greater the intent to purchase.

The earnest money deposit will be held in an escrow account typically managed by the title company or real estate agent so the seller cannot spend it and will be applied toward the down payment or closing costs. Generally, if the buyer fails to follow through on closing, the seller keeps the earnest money. If the seller does not follow through, the buyer receives their earnest money back.

Home Purchase Contract

It is very important to understand what to look for in the contract before signing it. You should know that once both parties sign the contract, it is legal and binding. If you do not understand any part, ask questions before you sign. Do not assume anything and make sure you understand what you are signing.

Home Purchase Contract
If you are buying an existing home, your purchase contract should include:

- The names and addresses of both buyer and seller
- The legal description of the property to be purchased (address, lot, and block number) – this can be obtained from the county property appraiser's office
- The mortgage amount needed to finance the house
- The earnest money deposit amount and the party who will hold it in escrow until closing
- The approximate closing date
- Provisions to extend the closing date in case the buyer or seller can't meet the terms of the contract
- Conditions for disposition of the earnest money deposit in case either party fails to close
- The amount of realtor's commission (if any, to be paid by the seller)
- Designation of the payer of specific closing costs
- Adjustments to be made at the closing (property taxes, "points" paid by buyer, seller, or builder)
- Items included in the sale, such as carpeting or draperies, fixtures like a wood-burning stove, fireplace, appliances, equipment, drapery hardware, outdoor or indoor furniture, etc.
- Special conditions of the sale i.e., if the house contains defects, what the seller will do to correct them. The seller may require the buyer to include an "as is" clause in the purchase offer or they may insert it in a counteroffer to the buyer. The 'as is" clause means the buyer accepts the property in its current condition; the seller is not guaranteeing the fitness, condition, or defects in workmanship of the property. The seller also is not responsible to correct any defects or complete any unfinished work on the property. The buyer is responsible for inspections to determine the quality, value, condition, and any defects of the property. NOTE: The seller still is obligated to disclose any known defects or prior defects that have been corrected but could reappear to the buyer.
- Mandatory and optional inspections the buyer can make before the closing, such as termite, home inspection, septic inspection, radon, and water
- Property easements (the rights of others to use the land)
- Any contingencies that will allow you out of the contract if certain criteria are not met

Common Contingency Clauses
You need to consider what contingency clauses you want added to the contract. A **Contingency Clause** is a condition you expect to happen before you will agree to purchase the house. You request these conditions (contingencies) in writing as part of your offer to buy. If the seller fails to meet the agreed-upon conditions, you have a legal right to back out of the offer.

Some examples of contingency clauses are:

- **Subject-to-financing.** It allows you the safety of making an offer to purchase before you know if a bank will approve you for a loan. If the lender does not approve your loan application, you can legally withdraw your offer on the house. The subject-to-financing clause could specify the maximum interest rate that a buyer will pay, or, if the appraised market value is less than the agreed-upon purchase price, the contract can be voided and your full deposit refunded, or the contract could be re-negotiated.

- **Subject-to-inspection.** It allows you to change your offer if an inspection finds the house needs repair. You can ask the seller to pay for the repairs, you can offer a lower price, or you can back out of the deal. You will have to arrange and pay for the inspection, but it may save you money in the end.
- **Subject-to-termite inspection.** It lets you legally withdraw your offer if an inspection shows damage from termites.
- **Subject-to-appraisal.** It allows you to change your offer or back out if the appraisal is less than your offering price.
- **Subject-to-SHIP approval.** It allows you to withdraw your offer if funding is denied or unavailable through the SHIP program.

In addition, the following are examples of contingencies that may apply to the purchase or building of a home:

- This offer is contingent upon the sale of the buyer's home.
- Time is of the essence in this agreement (if the buyer has a critical deadline).
- This offer is subject to the buyer's written approval of an itemized list of personal property items to be included with the sale of the house.
- If the buyer refuses to complete settlement, then the seller can keep the buyer's deposit as "total" liquidated damages.
- If the seller should default on the contract, the buyer is entitled to damages. (This could be the amount of the deposit with interest or more, like furniture storage fees, for example).
- All systems (heating, air, plumbing, septic) and any appliances included with the sale should be in working order for at least 30 days after settlement. The seller will provide a home warranty for one year.
- The offer is subject to a satisfactory inspection of the septic tank to be paid for by the seller.
- All dates and times are extendible for up to 30 days, if necessary, for mortgage approval.

Home Building Contract

If you are building your own home, the contract should include:

- The contractor's name, address, phone number, and license number
- The payment schedule for the contractor, subcontractors, and suppliers
- An estimated start and completion date
- The contractor's obligation to obtain all necessary permits
- How change orders will be handled
- A detailed list of all materials including color, model, size, brand name, and product information
- Warranties covering materials and workmanship
- What the contractor will and will not do. For example, is site clean-up and trash hauling included in the price? Ask for a "broom clause." It makes the contractor responsible for all clean-up work, including spills and stains.
- Any oral promises also should be added to the written contract.

Mortgage Financing

Mortgage financing is perhaps the most complicated part of a home purchase. Before you start shopping for a home, you may decide to get a mortgage preapproval to secure your mortgage amount. If not, you will need to apply for a mortgage when you select a home to purchase within five days after the purchase agreement becomes effective. A mortgage is a long-term financial commitment, up to 30 years. There are several factors that can affect how much you pay during your mortgage-financing period, which can either save you money or cause you to pay more than you intended including the down payment amount and interest rate. Homebuyers that put less than 20% down may be required to pay for private mortgage insurance (PMI) or a mortgage insurance premium (MIP) for the full financing period. Additionally, your interest rate is determined using several key factors, including the home price and loan amount, your credit score, and where the home is located. Therefore, be very careful when choosing your mortgage. In Chapter 5, you will learn about mortgage options in greater detail.

Home Inspections

Purchasing a home is a huge investment. Although you should check several critical features during the home selection stage, you also need to have a thorough inspection performed to know the exact condition of the home before you proceed with the purchase. Otherwise, you may have to spend several thousand dollars to repair some critical structural or system defect you did not recognize before you closed the deal.

Once the purchase offer is signed, you have up to 15 days to have a home inspection performed. The home inspection will identify any issues with or repairs needed on the home. The defects or problems identified may influence your decision to proceed with the purchase or allow you to renegotiate the contract. Depending on the conditions, you may ask the current owner of the home to repair or improve specific problems by a certain date before closing. In such a case, formally written requests should be submitted to the seller's real estate agent along with an amended Offer to Purchase. A thorough home inspection also will allow you to plan for any future repairs or improvements needed after you purchase the home.

In addition to regular home inspections, consider a wind mitigation inspection, a 4-point inspection, an energy rating inspection, and a termite and other wood damage inspections. A 4-point inspection inspects the roof, electrical system, heating and cooling system, and plumbing. The wind mitigation inspection and 4-point inspection could potentially save you money on home insurance costs.

You may choose to perform home inspections by yourself or hire a professional home inspector. However, Florida law (section 553.990, Florida Statutes) requires that only State-certified individuals can do an energy rating inspection, if you choose to have one done. For the termite damage inspection, you may hire a Wood-Destroying Organism (WDO) inspector.

More details regarding working with home inspectors will be explained in Chapter 4.

Survey

In simple terms, the survey is a process to verify the property border. From a survey, you will be able to determine:

- whether the home's structures are within the property borders
- whether there are any encroachments on the property by neighbors
- the extent to which any easements on the property may affect legal title

Role of a Survey

A lender requires a survey to verify that the property they are lending money to purchase is as described in the legal documents and is suitable as collateral for the mortgage. Anyone buying a house should obtain a survey. You want to make sure you are receiving the

full amount of property the seller says they are selling to you. On occasion, a survey has revealed the land parcel for sale was smaller than what the seller had communicated to the buyer, requiring a renegotiation of the sales offer. It is a good idea to learn, for example, where your property lines are, and whether there are any building restrictions affecting your right to add a porch or a fence. For example, local codes may require a shed to be a minimum distance from the property line. It also is important to know whether any portion of your neighbor's property—such as a fence—is actually on your property.

Survey Cost
Survey prices vary considerably, depending on the location of the property, the terrain (grassy yard versus wooded or swampy areas of the property), if the surveyor has surveyed property in the area, and other variables. If a new survey is required, a qualified, licensed surveyor must do it. Your realtor may provide referrals to surveyors in your area and an estimate of the cost. You also can check for qualified professionals from the Better Business Bureau or the local licensing authority. Make sure a copy of the survey is forwarded to your lender well in advance of settlement.

A buyer also may ask the sellers who did their survey when they purchased the property. However, some lenders may not honor a survey that is more than six months old. You may inquire from the prior surveyor whether he/she can simply update the most recent survey and whether this would result in a discount for the service. Reputable surveyors may give you a reduced price for the updated survey.

Buyers should receive a copy of the survey from their closing agent at the closing. It will come in handy in the future, whether you refinance, plan to build an addition, or if there is a question about utility easements or property lines.

Condominium Purchase and Survey
When purchasing a condominium unit, buyers do not have to obtain—or pay for—a separate survey of the unit. That survey was part of the plans recorded with the condominium construction documents.

Survey and Appraisal
It is important to distinguish between a survey and an appraisal. Both are usually expenses charged to the buyer at settlement. A survey denotes the boundaries of the property being sold. An appraisal assists the mortgage lender in determining if the house value is sufficient to justify the approved mortgage amount. Generally, the appraisal will analyze the condition of the house, its location, structural soundness, and comparable sales in the area.

Appraisal

A real estate appraisal helps to establish a property's market value—the likely sales price it would bring if offered in an open and competitive real estate market. When you apply for a mortgage, the lender will require an appraisal when you ask to use a home or other real estate as security for a loan because they want to make sure the property will sell for at least the amount of money they are lending. The property under appraisal is the *subject property*. You might pay for the appraisal when you apply for your loan.

Residential Appraisal Report
Appraisals are very detailed; below are a few items that may be included:

- Details about the property, along with side-by-side comparisons of three similar properties within the area where the property is located
- An evaluation of the overall real estate market in the area
- Statements about issues the appraiser feels are harmful to the property's value, such as poor access to the property (i.e. easements or unpaved roads)
- Notations about any serious flaws, such as a crumbling foundation or hole in the roof
- An estimate of the average sales time for the property
- What type of area the home is in (a development, stand-alone acreage, condominium, etc.)

Appraisal Methods
There are two common appraisal methods used for residential properties—the sales comparison approach and the cost approach.

Sales Comparison Approach
The appraiser estimates a property's market value by comparing it to similar properties that have sold in the area. The properties used are *comparables*, or *comps*.

No two properties are exactly alike, so the appraiser must compare the comps to the property, making paperwork adjustments to the comps in order to make their features more in line with each other. The result is a figure that shows what each comp would have sold for if it had the same components as the subject.

Cost Approach
The cost approach is most useful for new properties, when the costs to build are known. The appraiser simply estimates how much it would cost to replace the structure if it were destroyed.

What Does the Appraisal Mean to the Buyer?
The lender wants to be sure their investment is covered in case you default on the loan. If the property appraises lower than the sales price, the loan might be declined, but that isn't the only hurdle a sale must pass. Other facts on the appraisal can be a problem, too. The lender probably won't like it if the estimated time to sell the property is longer than the area average. If the appraiser notes that entry to the property is from a private, shared road, the lender might want to see a road maintenance agreement signed by everyone who uses the road, verifying that all parties share maintenance. These are just a few examples of negatives that could stall your purchase. The lender will study the appraisal carefully before determining whether the property qualifies to serve as security for your loan.

Appraisal and Home Inspection
Appraisers make notations about obvious problems they see, but they are not home inspectors. They do not test appliances, look at the roof, check the chimney, or do any other typical home inspection tasks. Never count on an appraisal to help you determine if the home is in good condition. Just like an appraisal, a buyer may need to find a home inspector to inspect the home's structural and electrical conditions. The home inspector also will provide a report that a buyer may use in the bargaining process.

Title Search

The title search is an examination of public records to determine and confirm a property's legal ownership and to identify any claims on the property. A title company or an attorney usually performs a title search. They research the vested owner, any liens or other judgments on the property, the loans on the property, and the property taxes due.

Before you close a deal on the purchase of a home, a title company will search public records on the property's ownership. Once the search is finished, you'll receive a preliminary title report. If there are any issues or problems with the title, you can point them out to the seller. Some problems are easily cleared up, while others may take so long, they jeopardize your loan commitment.

Title insurance is a protection against loss arising from problems connected to the title to the property. Before you purchase the home, it may have gone through several ownership changes, and the land on which it stands may have gone through many more. There may be a weak link at any point in that chain, and this could spell problems. For example, someone along the way may have forged a signature in transferring title. Alternatively, there may be unpaid real estate taxes or other liens on the property. Title insurance covers the insured party for any claims and legal fees that arise out of such problems.

There are two types of title insurance: lender's and owner's. A lender's policy is insurance for the mortgage holder that insures their interest in the title. An owner's policy insures the actual property owner for specific types of claims listed on the policy. Unlike other insurance policies, you only pay once for policy coverage for as long as you own the home. The cost of title insurance varies according to the purchase price of the home and the fees the title company charges. You will be required to purchase title insurance to satisfy the lender. You also should consider purchasing title insurance for your protection. If you purchase it at the same time as the lender's policy, it is generally cheaper. You can negotiate to have the seller purchase title insurance for you; this can be added as a contingency in your sales contract.

Closing the Deal

The best strategy for a smooth closing is to know what is involved, think ahead, be prepared, and seek assistance as needed. The final days and weeks before closing can be very stressful for both buyers and sellers.

At the loan closing, or settlement, your mortgage is activated, the title (ownership) to the property is transferred from the seller to the buyer by recording a deed, and you are given the keys to your new home. To take possession of your new home, you will need to sign many papers and pay your closing costs and the remainder of your down payment. The other attendees present at the closing may include the seller, real estate agents, closing agent, and the buyer and/or seller's attorney. The meeting can take an hour or more and will be held at the location specified in the agreement, unless other arrangements are agreed upon.

Documents Needed for Closing

- Closing Disclosure. This is a five-page document that provides all the details regarding the mortgage loan you have selected. You should receive this document no less than three business days prior to closing. Compare this document with your loan estimate to ensure there have been no changes in costs or terms. The information provided includes interest rate, loan term, projected monthly payment, fees, closing costs, the terms and conditions of a mortgage, including the annual percentage rate (APR) and other charges, and what cash is needed to close. Be sure to arrange for a cashier's check if you owe money at closing because cash or personal checks will not be accepted at the closing.
- The Promissory Note. This is a written undertaking, or promise, to repay a specified amount over a specified period. You or your attorney will want to review this prior to closing.
- The Mortgage. This is a legal document evidencing the lender's interest in a property to secure repayment of debt. You or your attorney will want to review this prior to closing.
- The Deed. This is a legal document transferring, or conveying, title to a property.
- Affidavits. These are statements sworn in writing by the borrower.

Preparing for the Closing

Prior to closing, review the documents outlined on the previous page. Confirm the due date of your monthly mortgage payment with your lender. Most mortgage payments are due the first day of the month; if you need a different due date due to your paycheck schedule or other financial obligations, make these arrangements with your lender prior to closing. Changes cannot be made at the closing table because the papers are legal documents; any changes would require the papers to be redrawn, causing a delay in closing.

Confirm the date, time, and location of the closing. Some closing agents charge a fee if you are late. If possible, arrange for childcare for younger children; this allows you to focus on the paperwork without distractions.

Make a final walk-through inspection of the house. If you negotiated for repairs with the seller, make sure the work has been completed to your satisfaction. Also, check for any damage that may have occurred since you signed the contract, such as holes in the walls, leaks, etc. The seller is responsible for repairing any damage to the property that occurs between the contract signing and closing.

Bring all your paperwork related to the house and mortgage loan and your driver license or state identification card with you to closing. Check with your lender and the closing agent to confirm any additional documentation you should bring.

Listen carefully to the closing agent's instructions for signing the papers. Some documents may require you to sign a variation of your name that is different from your usual signature. You should receive a copy of all the closing papers for your files. Keep these in a safe place in your home for future reference. If you ever refinance your mortgage, your lender may need copies of certain closing documents within that packet to process your refinance application.

Remind the seller to bring the house keys! It's a good idea to change the locks on the house after closing. You don't know who has a key to the house so, for your family's safety and protection of your belongings, change the locks before you move in.

After the Closing

After the meeting, the closing agent will officially record the deed and the mortgage at the registry of deeds or local clerk's office. The closing agent usually will not disburse the funds to everyone who is owed money from the sale until the transaction is recorded. When the deed is recorded, you are officially the owner of the home.

CHAPTER 4

Working with Housing Professionals

Important Questions to Ask

In the previous chapter, we talked about the home purchase process. In each stage of the process, you may choose to get professional help rather than dealing with everything yourself. Table 4.1 lists the possible housing professionals you might hire during the home purchase process.

Table 4.1. Housing Professionals in Home Purchase Process

Home Purchase Process	Housing Professionals
Stage 1: Pre-Purchase Preparation	
Stage 2: Mortgage Pre-Approval	Mortgage Lender
Stage 3: Home Selection	Real Estate Agent
Stage 4: Purchase Offer	Attorney, Real Estate Agent
Stage 5: Mortgage Financing	Mortgage Lender, Appraiser
Stage 6: Home Inspection	Home Inspector, Surveyor
Stage 7: Title Search	Title Company
Stage 8: Closing	Attorney, Title Company

Many people automatically place their trust in the professionals that can help them buy a house and home contractors who can repair or remodel it. People who would not hesitate to question the qualifications or methods of a carpenter, plumber, mason, or landscaper are often reluctant to question the expertise or skill of those housing professionals whose work is done on paper and not on the home, such as attorneys, appraisers, architects, or brokers. Because homebuyers are intimidated, they avoid asking even obvious questions for fear of insulting the professionals' intelligence. Remember, the only dumb question is the one that has not been asked. If a home professional will not give a straightforward answer to your questions, or appears offended by your inquiring, look elsewhere. If he or she is put off by preliminary questions, imagine what will happen when you get to the complicated ones! Compare services and prices. Beware of the ''white-coat, blind-faith'' syndrome — the tendency to be in awe of certain professionals, such as doctors.

Keep in mind that most home contractors deal with physical products. When a carpenter builds a deck, you can examine the joists; a roofer installs the roof and you can check the flashing. However, most home professionals produce paperwork and opinions. There are no physical tests of quality. Without a questioning attitude, crucial decisions about your house purchase may rest on little more than appearances of expertise and authority. All housing professionals should be able to give you a clear idea of what they will do for you and how they will proceed. Some will put it in writing before you hire them.

Ask these important questions when interviewing:

- Exactly what will be included in your services?
- What will it cost?
- Who pays the bill?
- When is payment due?
- When will the work begin and how long will it take?
- What kind of guarantee will you provide?

Real Estate Agent

The most efficient method of shopping for a house is to consult a real estate agent.

The basic definition of a real estate agent is ‘‘one who acts for another to negotiate the sale, purchase, or rental of real estate in return for compensation.’’ Real estate agents can represent sellers or buyers or the transaction. The seller’s agent is referred to as the “listing agent.” The “buyer’s agent” represents the buyer. In Florida, agents also can serve as transaction brokers. A transaction broker handles the paperwork of the house sale, facilitates communication between the buyer and seller, and facilitates the closing, among other duties, but is prohibited by law from advocating for the buyer or the seller.

Agents receive a commission from the seller when the house sells as payment for representing them. Commissions usually are a flat percentage of the home’s sale price, usually ranging from 3-7% for the seller’s agent; if the buyer also uses an agent, generally, the commission is divided equally between the agents, with the seller paying all commissions. A transaction broker usually charges a percentage of the home’s sale price, similar to a seller’s agent. Because of the way the commission system works, real estate agents want to sell homes quickly and at the highest possible prices.

How do you select an agent, and what services can you expect?

A real estate agent can:

- use your wish list to generate a computer printout of houses that meet your specifications
- show you houses that meet your requirements (by all means, let the agent do the driving)
- provide you with information about a community, including the prices and characteristics of houses in the area, the location of schools, property tax rates, unusual building code regulations, and availability of community services
- present your offer to the seller; and,
- advise you regarding mortgage lenders, real estate attorneys, professional home inspectors, and title companies.

Tips for Working Successfully with a Real Estate Agent

- Interview at least three agents before choosing one to represent you. Find one who understands your needs. Questions to ask include:
  - How long have you worked in real estate? A seasoned agent with at least two to three years of experience generally will have the background to assist a variety of clientele needs.
  - Do you work full-time as a real estate agent? If not, what is your schedule? Some agents sell real estate as a side job and may not be available when you are, or they may have a full-time job that interferes with their ability to promptly address urgent matters. Check to make sure their schedule works with yours to show you houses or you may miss opportunities on properties of interest.
  - How long have you lived in this area? The longer an agent has lived in the area, the more familiar they are with the housing market, property taxes, schools, community services, etc. This can help them to better serve your needs.
  - Do you work with a team or work alone? An agent who is part of a team within a real estate firm usually has a back-up colleague to assist clients if the agent is not available. This improves response time and availability.
  - Are you planning to be out of town in the near future? If so, confirm a back-up contact in case you find a home or need assistance while they are away.
  - Do you have access to a multiple listing service (MLS)? This is a database of homes for sale in the area from which the agent can generate a list of houses that match your requirements. This gives the agent access to a larger pool of houses from which you may select.
- Once you select an agent, you might sign an “exclusive buyer agency agreement.” This contract outlines the services the agent will provide and their compensation; it also means this person will serve as your sole representative and you will not work with other buyer’s agents.
- Work with your agent at each step of the process. Your agent can help you find the right house, advise you on your offer price and terms, represent you in negotiations, and assist you with problems that may arise.

- Never let a second agent show you a house that another agent has shown you previously.
- If you are seriously interested in buying a house, don't worry about wasting an agent's time by looking at too many houses. It's in your best interest to look at as many houses as possible, and an agent should not push you to ''make up your mind'' or make an offer on a house before you are ready.
- If you feel you are being ''steered'' to (or away from) certain neighborhoods, you should report your grievance to the U.S. Department of Housing and Urban Development (HUD), the agency in charge of enforcing the Fair Housing Act. The Fair Housing Act prohibits discrimination based on race, color, national origin, religion, sex, familial status, or disability (You also may want to file a complaint concerning that agent with your local Board of Realtors and your local HUD office.)
- Assume that anything you say to or in front of the seller's agent will be communicated to the seller. You can put yourself at a disadvantage in negotiating a price if you have been too enthusiastic about a house on which you decide to make an offer or mention you are on a tight deadline to find a house.
- As soon as you express interest in buying a house, the seller's agent will be eager to get you to sign an ''offer to purchase,'' setting forth the basic terms of your offer. Do not sign anything without first reading this document carefully and talking with your agent.
- Once you decide to make an offer on a house, do not discuss your negotiation strategy with the seller's agent. No matter how friendly or helpful they may be, remember they are looking out for the seller's best interests. No matter how anxious you are to buy the house, you need to keep your enthusiasm to yourself.
- Ask questions if you do not understand something.

Reference: https://www.realtor.com/advice/buy/how-find-realtor/

Attorney

If you choose to purchase a home, you may want legal representation. During the home purchase process, you will sign a sales contract, mortgage paperwork, and several other binding legal documents. You may wish to have an attorney review the documents before you sign them to determine if they protect your interests. If you do not know an attorney, contact your neighborhood legal service office or the Florida Bar Association at 1-850-561-5600, or visit the Florida Bar Web site, https://www.floridabar.org/directories/find-mbr/, for a referral. Remember, you are looking for an attorney with real estate experience. If you are using a real estate professional, most of these items are taken care of by the title company where you close. However, none of the other professionals are qualified to provide legal advice or legally represent you in a court of law.

A real estate attorney can assist with the following functions:

- Draft and/or review the contract of sale.
- Review the mortgage. Your lawyer represents you—he or she will make sure all documents are correct and fair. In some cases, you may use the same lawyer as the seller if the transaction is not too complex.
- Arrange the title search and survey of the property, making sure there is a clear title and the home is free of liens.
- Close the sale. The lawyer makes all the disbursements, has all sale documents prepared and signed, and records the deed and mortgage at the county clerk's office.

If you are purchasing your house through a "sale by owner" transaction, it is highly advisable to use a real estate attorney. Sellers using a real estate agent typically use a standard Residential Contract For Sale and Purchase drafted by the Florida Realtors and the Florida Bar. This form contains many standard contingency clauses that protect both the buyer and the seller. A seller without representation may not include some or any of these clauses or may include clauses that are to the buyer's disadvantage. A real estate attorney can review the sales contract to make sure the terms are acceptable to you, the buyer, before you sign.

Contractor

Everyone wants the best builder. However, the best builder may not be the best for two different people. Building a home is a highly emotional experience. It is best to choose a builder that fits your personality and needs. Most homebuyers use cost as the number one factor in choosing their builder. Rather than focusing primarily on cost, base your decision on the builder's

reputation, competence, professionalism, warranty coverage, and experience.

If you are thinking about hiring a builder to build or remodel a home, you should follow several steps.

Step 1: Interview the Contractor
There are two types of contractors: the **general contractor** (oversees the entire project) and **specialty contractors** (hired to perform a single job, such as a roof or plumbing).

Here are some questions to ask before hiring:
- How long have you been in business?
- Are you licensed and registered with the state and county?
- What type of insurance do you carry?
- Will you be using subcontractors? If so, who?
- May I have a list of references?

Step 2: Follow up on the interview
Once you gather the information, verify contractor information. One way to check for a valid license is to call the MyFlorida License department at (850) 487-1395 (or visit the Web site at https://www.myfloridalicense.com/wl11.asp?mode=0&SID=). Another way is to contact your local county building department, who will also verify registration to operate officially in the local area.

Ask to see proof of insurance and make sure it is currently active. Look specifically for personal liability, worker's compensation, and property damage coverage. Avoid doing business with contractors who do not carry the appropriate insurance. Otherwise, you could be liable for any injuries and damages that occur while your home is under construction. If there are any subcontractors involved, ask to meet them and verify their licenses and current insurance coverage as well.

The best way to learn about builders is to ask them for the addresses of their recently built homes and subdivisions. Drive by on a Saturday morning, when homeowners may be outside doing chores. Introduce yourself and say you are considering buying a home from the builder who built theirs. Talk to several owners and try to get a random sample of opinions. The more people you talk with, the more accurate an impression of a builder you are likely to get. At the very least, drive by and see if the homes are visually appealing.

When you talk to the neighborhood homeowners, take along a notebook to record the information you find. Doing so will help you to make comparisons later.

Some questions to ask the homeowners include:
- Are you satisfied with the way your home was built by the builder in question?
- Did you have good communication with the builder along the way?
- Did you make any changes to the original plans during construction? If yes, how open was the contractor to these changes?
- Were there any unexpected costs? If so, what were they?
- If you had any problems, were they fixed promptly and properly?
- Would you build another home with this builder?

Home Inspector

One of the contingencies in your contract should be that you obtain a satisfactory building inspection report. Make sure this is in your contract. Of course, you will have examined the house to the best of your own ability before making an offer on it. Nevertheless, before you go through with the purchase, you will want an expert to take a critical look at the property for you. Although you will pay for this inspection, it is well worth the cost in peace of mind.

Often, home warranties are offered with the home. The wise homebuyer will want to know up front if there is a problem, rather than discover a whole host of them after the purchase. A home warranty covers certain repair/replacement costs for problems with the house that occur during a specified period, usually a year. If you opt for a home warranty, know what the policy covers and what it does not.

Anyone can get a license to serve as a home inspector. Therefore, it is important to look for an inspector who is:
- certified by the American Society of Home Inspectors (https://www.homeinspector.org/ or 1-847-759-2820), and
- preferably one who has a PE (Professional Engineer) designation after his or her name.

Florida law requires home inspectors, mold assessors, and mold remediators to be licensed through the Florida Department of Business and

Professional Regulation. You can check their license status at https://www.myfloridalicense.com/wl11.asp?mode=0&SID=

The home inspection is not the same as an appraisal. If possible, you should plan to accompany the inspector on the inspection, which usually takes about two hours. You will undoubtedly pick up some valuable maintenance tips along the way, get a chance to ask questions, and learn more about the extent of possible problems. You also will be in a better position to understand the written report.

Every inspection should include an evaluation of at least the following: foundations, exterior walls/siding, doors and windows, roof, flashing, fascia/soffits, gutter system, eavestroughs, plumbing and electrical systems, heating and air conditioning systems, ceilings, walls, floors, porches, stairs, doors, tubs, showers, sinks, faucets, toilets, attic framing, insulation, ventilation, appliances, water heaters, fireplaces, sewer lines, and common areas (in the case of a condominium or cooperative). If the house is on a septic system, arrange for a separate inspection by a septic company. In addition to these, a termite inspection and wind inspection are also in your best interest. All inspections should be completed within the time limit set forth in the contract.

The purposes of the inspection report are:

- to identify problems before you purchase a home to prevent unpleasant surprises later
- to enable you to get out of a purchase agreement and get your earnest money deposit refunded if serious problems are identified
- to help you negotiate an adjustment in the purchase price if you want to buy the house despite the problems
- to get the seller to agree to pay for needed repairs, either before the sale or after the sale, using escrowed funds
- to give you confidence about going ahead with the purchase

When you arrange for an inspection, insist on a detailed report that includes:

- major problems to be corrected
- minor problems to be repaired
- estimates of the expected life of various items such as the roof, furnace, electrical system, air conditioner, appliances, and costs of maintenance

Appraiser

When you apply for a house loan, the lender will require a professional appraisal of the market value of the property. The appraised value of the house determines how large a mortgage the lender will be willing to give you. If the appraised market value is lower than the agreed-upon purchase price, a subject-to-appraisal contingency clause in your purchase contract gives you the right to withdraw your offer or renegotiate the contract. The cost of this appraisal, usually around $450 and up, for a conventional loan on a three bedroom, two-bath house, will be included in your closing costs when you sign the final papers. Your lender may require a check from you for the appraisal fee prior to the appraisal; this will pay for the appraisal should you not close on the house.

Surveyor

A property survey defines the property you are purchasing. The survey is written in terms of chains, rods, and quarter sections, using a complicated but safe and accurate method of recording property boundaries.

Survey costs vary depending on the size of the lot, the terrain, and if the surveyor has surveyed nearby

properties recently. Large, irregularly shaped lots can cost more. The fee usually is included in the closing costs, but you may be required to pay a portion of the fee out-of-pocket at the time of the survey. If the house sale does not go through, you will be responsible for paying any remaining balance to the surveyor. Still, it is a small price to pay for knowing the true and legal boundaries of your property. Homeowners have sometimes had to move fences or make other expensive revisions because their property line was not where they thought. If you wish to have stakes or rebar placed in the ground to delineate your property line, you will probably pay a bit more, but sometimes having the visual markers is helpful in finalizing the deal.

Mortgage Lender

Homebuyers should shop for financing just as carefully as for the house itself. Begin comparison-shopping at the bank where you have been doing business. You can shop for mortgage lenders by going online to Web sites like http://www.bankrate.com. Also, get recommendations for other mortgage sources from friends, family members, co-workers, your attorney, or real estate agent. You can look for lenders in your area or surrounding counties by visiting the Florida Housing Finance Corporation website, https://www.floridahousing.org/. Additional lenders to investigate are mutual savings banks, savings and loans, commercial banks, credit unions, mortgage brokers, and private investors.

Select several lenders and make appointments to learn more about the loans available.

Remember these guidelines:

- Shop for services as well as rates. Have all credit reports pulled within a 30-day period to reduce the negative impact on your credit score.
- Compare the total points charged by each lender as well as the total fees (application, origination, credit report, survey, appraisal, and attorney as well as ''miscellaneous" fees, which can include such extras as an underwriting fee, set-up fee, and tax service). See Chapter 5, *Finding a Mortgage*, for more details about mortgages and lenders.
- Factor in the years you expect to stay in the house before you might be selling it.
- When interest rates are trending upward, it's usually a good idea to look for a lender who will lock in a mortgage interest rate in writing at the date of the application. If interest rates are falling, go ahead and lock-in the promised rate at the time of the commitment, but get written assurance that if rates go down by the time your purchase is finalized, you will get the lower rate. You also will need to determine what it will cost you to lock in at the current rate. Remember that once you have locked in a rate with one mortgage lender, you can no longer shop around for rates.

Once you select a lender, you will need to fill out an application and take the following with you:

- Copies of pay stubs for each applicant, reflecting a minimum of 30 days of income. Pay stubs cannot be more than one month old at the time of your application.
- Names/addresses of employers for the last two years
- W-2s for the last two years
- A completed and signed Form 4506-T or 4506T-EZ – this form gives the lender authorization to access your tax return
- Bank statements for the last two to three months
- If self-employed, year-to-date profit and loss statement, plus signed returns for the last two years
- Proof of pension income, if applicable
- Social Security and Disability payments, if applicable
- Dividend earnings
- Bonuses
- Child support or alimony payments (these only need to be disclosed as income if you plan to use these funds toward paying the mortgage)
- A copy of the earnest money deposit
- Information on debts such as car loans, student loans, credit cards, child support payments
- Security accounts (stocks, bonds, life insurance)

Be sure to provide the financial information for each person listed on the loan.

Once you and the seller have signed a home purchase contract, you will need to provide a copy to your mortgage lender.

Your lender probably will ask for additional documents as they consider your application. Be prompt in submitting these documents so you don't cause delays in the loan approval process.

CHAPTER 5

Finding a Mortgage

Mortgage Search

Failing to shop comparatively among local mortgage sources can be costly. For example, the difference between a five and six percent interest rate on a $100,000 fixed rate mortgage could save about $63 per month and nearly $22,600 over 30 years.

Selecting the best mortgage is not an easy task. Among the factors to consider are your current and projected income, your marginal tax bracket, current market conditions, the size of your investment portfolio, and how long you plan to live in the house.

To make a good decision about the best mortgage for you, basic knowledge of current mortgage alternatives is needed first. Then, you will need to find a lender and analyze available financing options. All mortgages of the same type are not exactly alike.

The lender will likely be a loan originator who then sells your loan to a secondary market mortgage buyer. The originator will have the promissory note prepared along with the mortgage or deed of trust drawn to secure the property for the lender should you default on the loan.

Mortgage Sources

Traditional home mortgage lenders consist of savings and loan associations, banks, and independent mortgage brokers and are the most readily available sources of mortgage loans. A mortgage broker is a "middle" person who finds a mortgage lender for a potential borrower, and vice versa. A broker does not lend money but matches lenders with borrowers. A broker earns a commission or fee when a loan is made between parties he or she has brought together.

Credit unions offer the same kinds of mortgage products, rates, and terms as are available from traditional mortgage lenders.

Search Methods

Here are some ideas on how you might locate your mortgage options and narrow the list to a few prospects.

Internet

One way to check current mortgage rates in your area is through the Internet. At http://www.bankrate.com, you can personalize your search and find what local lenders are offering based on the type of loan you want.

Local real estate agents

Local real estate agents often are an excellent source of current information about mortgage rates and terms. Most agencies survey all major lenders in town every week or two as a service to their clientele. Here again, the information gathered is probably not enough to make a good choice.

If you cannot get a comprehensive mortgage report, invest the time to call several financial institutions for their rates and basic credit terms. Use the lender comparison sheet on pp. 49-50 of this chapter and contact various types of lenders (including savings and loans, banks, mortgage companies, and credit unions) to compare current offers.

Types of Mortgages

Today's mortgages are complex, and home ownership is no longer a nearly risk-free investment. It is recommended to compare mortgage alternatives to find the best balance of risk and opportunity. Figure out which loan has the most advantageous combination of interest rate, up-front costs, tax advantages, monthly payment, and terms for your situation.

Conventional Mortgage

A conventional mortgage is a loan made by a private lender that is not insured or guaranteed by the federal government. Generally, if a borrower pays less than twenty percent of the purchase price for a down payment, the lender will require the borrower to pay for **private mortgage insurance (PMI)**. This insurance protects the lender against potential loss if the borrower defaults on the loan. Because PMI reduces the risk to the lender, lenders may consider larger loans and smaller down payments than would otherwise be practical. PMI annually costs between .03 and 2.25 percent of the mortgage amount and is paid monthly with your mortgage payment. Generally, conventional loans are available with down payments as low as three percent.

Under the Homeowners Protection Act, mortgage lenders are required to automatically terminate PMI when the mortgage balance reaches 78 percent of the original purchase price, known as 78% loan-to-value, provided the borrower is in good standing and has not missed any scheduled mortgage payments. The lender also is required to discontinue PMI at the halfway point of the amortization schedule, even if the mortgage balance has not yet reached 78% loan-to-value; on a 30-year loan, this would be 15 years. This is referred to as final termination.

Federal Housing Administration (FHA) Insured Loans

The Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA) insures loans made by a lending institution, such as a mortgage company, bank, or savings and loan association for up to 96.5 percent of the property value and for up to 30 years. The loans finance homes in both urban and rural areas. Though the typical FHA-insured loan is a fixed-rate mortgage, they do insure other types of mortgage loans, such as adjustable rate mortgages. The interest rate is established by the market, not the government. FHA-insured loans are readily available, but some of the different types of FHA-insured loans may not be available locally.

An origination fee can be charged for up to one percent of the loan amount and there are no restrictions from paying points. The maximum loan amount may be capped, except for certain high-cost areas, which allow for larger loan amounts. There are no limits on family income and no subsidies on the monthly payments.

Advantages

- Allows for a lower down-payment
- Requires a minimum credit score of 580
- Some closing costs may be financed in the loan
- No prepayment penalties may be collected

Disadvantages

There is a **mortgage insurance premium (MIP)** that is typically financed in the loan. For FHA loans, the borrower is required to pay two premiums. The first is the upfront premium, which is 1.75% of the loan amount when the borrower gets the loan; this is included in the closing costs. The second is the annual premium, typically one percent of the loan amount paid monthly. Due to program changes in 2013, borrowers who pay less than a ten percent down payment will be required to pay the MIP for the life of the loan; unlike PMI on a conventional mortgage, they will not be permitted to discontinue MIP payments once they have reached 78% loan-to-value. This will add to the overall cost of the loan.

Veterans Administration (VA) Guaranteed Loans

Veterans Administration (VA) guaranteed loans provide mortgage insurance for a portion of low- and no-down-payment loans to eligible veterans, active duty personnel, and unmarried surviving spouses. Local lenders (not the government) supply the loans. VA loans are either fixed- or adjustable-rate loans with a repayment period of up to 30 years and 32 days.

The VA home loan limit is the maximum amount of money you can borrow using a VA-backed home loan without paying a down payment. If you qualify for a VA-backed home loan, you will receive a **home loan entitlement**. This is the maximum amount the VA will guarantee to pay to the lender if you default on your loan. If you qualify for a loan based on your income and credit history, and the property's value is not less than its asking price, your lender likely will agree to loan you up to four times the amount of your entitlement without a down payment. This is your loan limit. You may still be able to borrow more than your loan limit if you are able and willing to pay a down payment. Most lenders require your entitlement, down payment, or a combination of both to cover at least 25% of your total loan amount.

You may qualify for two types of entitlements. As the **basic entitlement**, the VA guarantees to pay the lender up to at least $36,000, or 25% of the loan

amount, whichever is less, if you default on your loan. So, your loan limit would be $36,000 × 4 = $144,000. If you want to buy a house that costs more than $144,000, the VA will help you determine your bonus entitlement; this is based on the Federal Housing Finance Agency's current national conventional financing confirming limit and your state's county loan limits. The VA will guarantee 25% of your loan amount, based on these loan limits. Your lender or the VA regional loan center, https://www.benefits.va.gov/HOMELOANS/contact_rlc_info.asp, can assist you with questions about your entitlement.

The VA does not require a down payment if the purchase price or cost of the property does not exceed the appraised value. However, the lender may require one. The VA charges a funding fee based on the type of loan received, military category, if you are a first-time loan user, and if you make a down payment. This fee is a percentage of the loan amount. The fee may be included in the loan and paid from loan proceeds. Specific information about the funding fee can be found at https://www.va.gov/housing-assistance/home-loans/funding-fee-and-closing-costs/.

If using the VA guarantee, the buyer is responsible for the following closing costs (which can be negotiated with the seller): VA funding fee, loan origination fee, loan discount points, credit report and payment of any credit balances or judgments, VA appraisal fee, hazard (homeowner's) insurance and real estate taxes, state and local taxes, title insurance, and recording fees. The seller is required to pay for real estate agent commissions, brokerage fees, buyer broker fees, and the termite report. Brokerage fees should not be charged to you for the loan.

VA loans can be paid off at any time without penalty. Partial payments cannot be less than one monthly installment or $100, whichever is less.

If you are interested in applying for a VA home loan, the first step is to apply for a Certificate of Eligibility. This confirms for your lender that you qualify for the VA home loan benefit. For Certificate of Eligibility application information, please visit https://www.va.gov/housing-assistance/home-loans/how-to-apply/.

Advantages

- Eligible veterans pay no mortgage insurance premiums and may obtain a 100% loan-to-value mortgage (no down payment), up to a fairly high loan limit.
- No minimum credit score is required.
- There is no maximum land value to the loan amount and no pre-payment penalty.

Disadvantages

- Non-veterans are ineligible.
- Discount points are usually charged, and if a seller pays them, the price of the house may be higher.
- The little or no-down-payment option results in both larger debt and heftier monthly payments. If the home depreciates, the housing debt may exceed the value of the house, and the sale of the home would not cover the loan.
- Any down payment, closing costs, or points cannot be borrowed; they must be paid in cash from the borrower's own funds. Processing time is 30 days.

For detailed information about VA Guaranteed Loan Program, visit https://benefits.va.gov/homeloans/documents/docs/vap_26-4_online_version.pdf

USDA Rural Development – Housing Loans

USDA Rural Development provides loan guarantees for purchasing rural property to qualified low- and moderate-income applicants. To qualify for the loan guaranty, the applicant's adjusted family income must not exceed 115% of the median income for the area, they must personally occupy the home as their primary residence, they must have the legal ability to take on the loan obligation, they have to have a good credit history, they must not have been suspended or barred from participation in federal programs, and the property must meet all program criteria. Applicants must purchase or build in an eligible rural area as defined by Rural Development. Loans are guaranteed with 30-year fixed-rate mortgages.

Applications are submitted for this program through an approved lender. Rural Development offices are located throughout the state. To learn more about this program or to find the office nearest to you, visit the Rural Development Web site at https://www.rd.usda.gov/page/state-offices.

Advantages

- These loans make home ownership possible to those who perhaps could not otherwise obtain adequate housing.
- The interest rate and down payment vary with household income.
- Closing costs are low.
- No minimum credit score is required.
- Loan terms may be arranged for longer terms than for conventional mortgages.

Disadvantages

This type of home financing is available only to those who meet the criteria outlined by Rural Development.

Types of Mortgages by Interest Rate Treatment

Long-term, Fixed Rate Mortgage (FRM)

Fixed rate mortgages (FRM) are the most commonly used loan. These types of loans could be federally back by FHA or the VA or be a conventional loan. With an FRM, the payments are stable, and the interest rate is fixed for the term of the loan. FRM loans are most commonly available in 15- and 30-year terms. However, 20-, 40- and 50-year terms are available.

Advantages

- The fixed payment (principal and interest) protects against inflation, which helps with long-term financial planning because you know what your housing expense will be over time.
- Offers protection from any increase in the interest rate and you know exactly how much interest you will pay over the term of the loan.
- An FRM without a prepayment penalty allows you to shorten the term of the loan and lower the amount of interest paid if extra payments toward the principal are made.
- Creates a potential long-term tax advantage, as the interest paid on the mortgage is tax-deductible if you itemize on your federal tax return.

Disadvantages

- The interest rates on an FRM are usually higher than adjustable rate mortgages and will not go down during the term of the loan.
- Because the interest rate is higher, you may not qualify to borrow as much money due to the money needed to pay for interest.
- Private mortgage insurance (PMI) is required unless the borrower pays a down payment of 20%.
- There is a slow equity build-up, especially in the early years because the majority of your monthly payment is applied to the interest.
- FRMs cannot be assumed by subsequent buyers because lenders want to take every opportunity to replace a low-rate loan with a higher-interest one.
- To take advantage of declining interest rates, you will have to refinance. Refinancing costs total about three to four percent of the loan amount, so it does not pay to frequently refinance.
- The most suitable borrowers for FRMs include those who have fixed incomes, plan to live in the home for at least five years, cannot risk future increases in monthly payments, seek long-term deductions, and believe that interest rates will rise.

Types of Fixed-Rate Mortgages

30-Year Fixed-Rate Mortgage

Advantages

- You can borrow money on a long-term basis with an interest rate that will not change.
- Monthly payments are lower because they are amortized over a longer period.
- The lower monthly payments free up money that borrowers can pour into investments that yield more than their home.
- It increases the amount you can deduct at tax time.

Disadvantages

- The overall interest bill is much higher because of the longer amortization term.
- The interest rates are higher than on shorter term loans (e.g. 15-year loans.).

15-Year Fixed-Rate Mortgage

Advantages

- Allows you to own your home debt-free in less time and for half the total interest cost of a 30-year fixed-rate loan.
- Borrowers build equity much more quickly due to a shorter amortization schedule.
- Overall interest bills (because principal balance is reduced more quickly) are dramatically lower than those on longer-term loans.
- The interest rates may be lower than on 30-year loans because you are repaying the principal more quickly.

Disadvantages

- Monthly payments can be significantly higher (roughly 15-30%) than those on 30-year loans.
- Restricts home buyers to a smaller house than they might be able to afford due to a higher payment.
- Because principal balance is paid down faster, total mortgage-interest is reduced, affecting the tax shelter benefit of owning a home.

Bi-Weekly Fixed-Rate Mortgage

Advantages

- It speeds up amortization.
- Reduces total interest paid.
- Shortens the term of the loan to about 25 years.

Disadvantages

- Lenders and private companies usually charge for this service. The same objective can be accomplished through a 30-year fixed-rate loan by making an extra payment or two a year and applying it towards the principal. However, be aware of any prepayment penalties that may exist on the loan.
- You trade saving money in total interest for losing potential tax cost reductions if you itemize deductions on your tax return.

Interest-only Fixed-Rate Mortgage

Interest-only fixed-rate mortgage terms are divided into two periods: the first period payment is smaller because you are paying interest only and no principal; in the second period, you pay both interest and principal. You build no equity during the interest-only period, since you are not paying down the principal.

Adjustable Rate Mortgage (ARM)

Adjustable Rate Mortgages (ARMs) also may be called variable-rate loans, adjustable-rate loans, or adjustable-mortgage loans. Whatever they are called, the interest rate on an ARM can move upward or downward, usually causing changes in the monthly payment. In some cases, the loan term and/or principal may change. Most ARM rates start lower with an initial fixed-rate period and move to a variable rate after a specified time.

The interest rate is based upon a recognized financial index, such as the one-year U.S. Treasury securities yield. The margin is the percentage amount added to the index rate to get the ARM's interest rate. For example, say, the index rate is six percent and the margin is two percent, the annual percentage rate (APR) of the ARM would be eight percent. To lure in customers, the starting rate of an ARM may be less than the index plus margin. However, be aware this rate is temporary and will most likely rise.

ARMs come with caps, which limit the amount both the rate and payment can adjust. There are three caps that are generally set with an ARM: periodic rate cap, lifetime cap, and payment cap.

- The **periodic rate cap** limits how much the rate can change at any one time. These are usually annual caps or caps that prevent the rate from raising more than a certain number of percentage points in any given year.
- The **lifetime cap** limits how much the interest rate can rise over the life of the loan.
- The **payment cap** is offered on some ARMs. It limits the amount the monthly payment can rise over the life of the loan in dollars, rather than how much the rate can change in percentage points.

Payment caps can cause "negative amortization" when the interest rate is higher than what the payment cap will allow. Because the capped payments are not enough to cover the interest due on the loan, the unpaid interest is added to the principal balance. ARMs which allow negative amortization and ARMs without rate caps are very risky but are generally avoided by lenders today because of the high default rates associated with them.

Advantages

- The initial interest rate is lower than a fixed rate loan (usually by one to two percent), but when interest rates are high the difference may be three to four percent.
- As a result, monthly payments start out much smaller and qualifying for an ARM is much easier.
- If interest rates fall, the ARM rate also falls, meaning greater savings without having to incur the high costs of refinancing.

Disadvantages

- If interest rates rise, then the loan rate and monthly payments will rise accordingly on the adjustment dates.
- If your income does not keep pace with the rise in payments, you could be forced to incur the costs of refinancing to obtain an FRM at the current higher rate for protection against further increases.
- Long-term (30-year) ARMs have slow equity build-up, similar to an FRM.

Other Characteristics of ARMs

The Number System

ARMs start with a fixed rate and monthly payment for a specified time period then switch to an adjustable rate and payment for the remainder of the loan term. There are several options such as 3/1, 5/1, 7/1 or 10/1. The first number (such as 5) is the number of years for the fixed rate. The second number (such as 1) is how often the ARM is adjusted after the initial period. For example, with a 5/1 ARM, the interest rate stays the same for the first five years and then can adjust once a year up to the allowable cap. The amount it can adjust to depends on the caps that are set with the ARM.

Interest-only ARMs

With an interest-only ARM, the borrower is required to pay only the interest for a specified period, often 10 years. After that, it adjusts to the going interest rate as tracked by a specified index. The loan then amortizes at an accelerated rate. During the interest-only period, the borrower can choose to pay some principal. By providing flexibility in the size of monthly payments, interest-only mortgages often are a good match for people with fluctuating monthly incomes (i.e., salespeople who are paid by commission).

Conversion ARMs

Some ARMs are "convertible" to an FRM at the prevailing rate for a much smaller fee than the cost of refinancing (sometimes as little as $100). Conversion is generally allowed only during certain years of the loan. Lenders may offer a range of interest rate-discount point combinations from which to choose.

ARMs are best suited for a buyer who expects to own the home for less than five years, accepts the risk of future higher rates (in return for immediate use of extra cash that would have gone into higher FRM payments), believes interest rates are declining, and doesn't want a higher-rate FRM. Consumers must live with the risk of higher future payments to receive initial short-term savings and potential longer-term savings if they are able to refinance and get a lower fixed rate later.

Balloon Reset/Refinance Mortgages

Balloon/reset mortgages offer monthly mortgage payments based on a 30-year amortization schedule with a choice of a five- or seven-year term to either pay off the loan or "reset"/refinance the mortgage to a current market interest rate for the rest of the amortization period. Balloons can be fixed-rate or adjustable-rate loans.

You do not have to re-qualify for the loan when refinancing. However, the refinance option is not automatic, so you must exercise the option. There are a few conditions on the option to refinance:

- You still own and occupy the home.
- You have made all mortgage payments within the past year on time.
- There are not any liens on the property.
- You may have to pay closing costs and lender fees to refinance.

Advantages

- Interest rates on balloons are generally lower than the going rates on 30-year fixed rate mortgages.
- Buyers who plan on living in the home less than the balloon term will pay less than they would with a 30-year fixed rate loan.
- The refinance option provides a "safety net" in case a planned relocation doesn't take place or economic conditions prevent you from moving to another home.
- It is possible to qualify for a larger loan amount with a balloon/reset mortgage than with a fixed-rate mortgage.

Disadvantages

- If your financial situation changes at the end of the balloon term (i.e., a decline in income or a family medical problem, etc.), you may have difficulty refinancing into an acceptable new mortgage.
- You could lose your right to refinance by falling behind on payments or allowing a lien to be placed on the property.
- Interest rates could be higher at the time of refinancing and you could be turned down.
- You could be charged closing costs and other lender fees to refinance the loan.

Questions to Ask When Choosing a Mortgage

Once you have completed the mortgage search, narrow your list to the two or three most appealing mortgages and make a thorough investigation and analysis.

Questions to Ask for Mortgage Comparison

Answers to the following questions are your tools for making a comparative mortgage analysis and a way to reduce your risk and increase your opportunity for savings.

What is the simple interest rate and number of discount points?
Discount points are a form of interest which is paid up front at closing. Each point equals one percent of the loan amount. Most lenders offer a choice of interest rates and discount points – the lower the interest rate, the more points charged. For example, if you pay two points, or $4,000, to borrow $200,000—you have really borrowed only $196,000. However, you will pay back the full $200,000 face value of the loan plus interest. Generally, the longer you plan to stay in your home, the greater the advantage of paying more points to get a lower interest rate.

What other rate/point combinations are available?
One point lowers the annual percentage rate (APR) one-fourth of one percent on the interest rate of a 30-year fixed-rate mortgage. For example, the APR of a 6% 30-year fixed-rate loan with no points is equivalent to the APR of a 5% loan with four points. An additional consideration is that (for new loans only, not refinancing), points are fully tax deductible in the year paid (unless they are financed) if you itemize deductions on your federal tax return.

What is the annual percentage rate (APR)?
The APR considers all costs of financing including the interest, discount points, mortgage insurance, etc., and amortizes them over the full term of the loan. This gives you an easy way to compare mortgages, if you keep that loan until you pay it off. If you don't intend to stay in the home that long, the APR becomes biased and is not the best basis for comparison.

Will you lock in the interest rate until closing?
The loan approval process typically takes from three to eight weeks, (or longer if applications have backed up). If not "locked in," the mortgage interest rate could change (upward or downward) before closing. Generally, lenders will lock in rates for 30 days, while some may lock in for a longer period. To extend the locked-in rate, applicants will have to pay a fee, typically a small percentage of the loan amount. Some lenders allow you to lock in by telephone at any time during loan processing. This is advantageous when market rates fall.

What is the required down payment? What will mortgage insurance cost?
Most mortgages require a 20% down payment unless you pay for mortgage insurance to protect the lender in case you default. Getting mortgage insurance can reduce your down payment to as little as three percent of the home's appraised value.

Private mortgage insurance (PMI) rates for conventional loans vary by amount of down payment and credit score. It may be cheaper than Federal Housing Administration (FHA) rates for borrowers with good credit. PMI is generally paid monthly. For FHA loans, you are required to pay two mortgage insurance premiums. The first is the upfront premium, which is 1.75% of the loan amount when the borrower gets the loan. The second is the annual premium (paid monthly), typically one percent of the loan amount.

Is there an application fee? If so, is it refundable?
Some lenders have no application fee. Others may charge upwards of $300 and may or may not refund it if the loan is not approved or if you decide not to take the loan. Compare application fees of different lenders as you consider your financing options.

What are the closing costs?
The closing costs can total three to six percent of the loan amount. Lenders are required to give you a Loan Estimate outlining the terms and projected costs of the loan. This estimate may include the origination fees (for making the loan), title changes, and items (such as insurance and taxes) which must be paid at closing. There may be additional expenses that are not listed on the form and some of the fees may be paid by either the seller or buyer. Ask the lender about any other possible closing costs, in addition to those on the standard form.

In general, the actual closing and document preparations may be conducted by an attorney or a title insurance company (usually at no additional charge if the title insurance is purchased from them).

Are there any prepayment penalties?
Today, most mortgages do not charge penalties for prepayment of principal. This is important if you later decide to sell your home or if you want to make extra payments to shorten the loan term. However, loans with prepayment penalties may have lower finance costs. Such a loan may be a good choice if you do not intend to pre-pay or sell the home within the penalty period.

Is the loan assumable?
An assumable loan can be passed on to the buyer of your home if you sell. It may or may not guarantee the same interest rate. Either way, the closing costs on

an assumed loan are less than for a new loan, so that characteristic of a loan may help you sell your home in the future.

Today, fixed rate mortgages are rarely assumable. They have a "due-on-sale" clause. However, most adjustable rate mortgages are assumable.

Is there a late payment charge?
Most lenders charge a late payment fee, but they vary in how much is charged and when the fee is imposed. The average fee is four to five percent of the monthly payment amount and imposed after the 15th of the month if payment is due on the first day of the month.

Adjustable Rate Mortgage (ARM) Questions

Is the initial interest rate discounted? If so, when and how will the interest rate ever change?
Some lenders (and builders) may offer very low initial interest rates to attract borrowers. At the end of a time span, the interest rate is raised to its normal level according to the loan agreement's formula.

Unless you intend to have the mortgage for only a short time, it is better to make comparisons based on the "formula" interest rate rather than the initial rate. However, if you plan to sell soon, the savings from the initial discounted interest rate can mean substantial savings for you.

How often can the interest rate and payment amount change?
In general, the shorter the rate adjustment period, the lower the interest rate and vice versa. Frequent adjustments are advantageous when rates are falling but offer less protection when rates rise.

What is an adjustment index and when is it used?
The interest rate of an adjustable rate mortgage follows a published market "index." Indexes based upon U.S. Treasury securities reflect true economic conditions. Indexes based upon "cost of fund" to financial institutions nationwide reflect what financial institutions must pay to attract deposits.

In general, indexes tied to long-term indicators (such as three-year and five-year securities) are less risky than those tied to short-term indicators (such as three-month Treasury bills). Long term is advantageous when rates are rising; short term is better when rates are falling.

What is the margin?
The margin or spread above the index determines what your mortgage interest rate will be at each adjustment date. The smaller the margin, the closer your interest rate is to the index rate and the less you pay. Remember that the same margin over two different indexes may produce two different interest rates—if the indexes are different.

Are there periodic, lifetime, or payment rate caps?
Rate caps limit how much the interest rate can rise or fall at the adjustment dates, over the life of the loan, or the amount the payment can increase. In general, the lower the rate caps, the smaller the risk, but the higher the starting interest rate. Most ARMs today have 5-7% lifetime rate caps and 1-2% annual rate caps.

It is a good idea to figure out or ask the lender to provide what happens to the monthly payment amount if: (a) rates rise to the upper limits of the caps (the "worst case scenario") and (b) if rates drop two or three percent. This provides a clear picture of the risk and the realistic opportunity for savings if rates fall.

Is negative amortization possible?
If interest rates rise, payment caps (limits on your monthly payment) can cause your debt to grow instead of shrink. Loans which allow your debt to grow (negative amortization) are low rate because of their high risk. However, loans with payment caps can be structured with rate caps to avoid negative amortization.

Construction Loan

When you build a home, there are two loans involved: a construction loan and a home mortgage. A construction loan covers the contractor's expenses in building your home, including purchase of the supplies. A construction loan is set up at a lending institution. Ask your lender how they handle the two loans. The construction loan **must be paid off before** the permanent home mortgage loan begins. Be sure you inspect your home very carefully before you sign off on your construction loan.

You are responsible for paying the interest on the construction loan while the house is being built. The construction loan interest rate could be different than the permanent mortgage interest rate. Because of that, the risk is greater for interest rates to rise with new construction. The loan period ranges 45 - 60 days depending on the lending institution. The nearer your house is to completion, the more the contractor needs to draw from the construction loan at the bank.

As with any other loan, there are closing costs. You need to be aware that, in building a house, there are **up-front** or out-of-pocket costs.

Lending institutions require:

- House plans
- Specifications
- Contract with contractor

Be sure you have a **lock and key** contract with the contractor, and you understand what that is. If changes are requested after signing the contract, it usually will cost you more. This is a set amount of what the house will cost, **not a cost plus** or other plans.

Find out who pays for the electric line to the property, wells, septic tank, walkways, driveways, grass, and cleanup. Budget for possible additional costs or include them in your contract with the contractor.

Special Programs

No- or Low-Down Mortgage Options

Lenders may offer financing up to 100% of the appraised cost of a home. With no- or low-down mortgages, you will pay as high as three percent down and as little as $500 towards closing costs.

A no-down mortgage consists of two mortgages: the first mortgage covers up to 80% of the home price, and the second covers the remaining up to 20%; you essentially are borrowing the down payment. Another feature of no- or low-down mortgages is they do not require private mortgage insurance because you are paying the down payment with the second mortgage. The catch with these types of mortgages is that they usually have higher rates of three to four percent. Ask your lender about no- or low-down financing options.

State Housing Initiatives Partnership (SHIP) Housing Assistance Program

SHIP is a down payment-assistance loan program that assists first-time home buyers with the purchase of a home. This program is designed for very low-, low-, and moderate-income households that do not have adequate resources for down payment and closing costs.

How the program functions varies from county to county within the state of Florida. The program provides a low- or interest-free loan to reduce down payment and closing costs to qualified, eligible homebuyers. A second mortgage is placed on the property and the recapture of SHIP funds are either deferred until point of sale, transfer, or refinancing, or forgiven after a specified time period. Maximum loan amounts vary based on available funds and meeting income requirements adjusted for family size. The maximum sales price, funds available, and recapture of funds are determined by the local management of the SHIP program.

SHIP funds may be matched with private funds, bank loans, credit union loans, Community Development Block Grant (CDBG) Funds, Rural Economic Community Development funds, or any other state or federal grant.

Advantages

- Provides down payment and closing cost assistance for very low- to moderate-income families.
- The loan is deferred with little or no interest. It is either forgiven after a specified time, or payable if the house is sold, refinanced, or the title is transferred.

Disadvantages

- Must qualify by local income guidelines.
- Fund availability is limited.
- Must live in the county/city limits of the program administering the funds.
- Home must be owner-occupied.

Other First-Time Homebuyer Financing Programs

The Florida Housing Finance Corporation offers a variety of programs for first time homebuyers. These include 30-year, fixed rate first mortgage loans through participating lenders and second mortgage programs to assist borrowers with down payment and closing costs.

The Florida Assist (FL Assist) Program

The Florida Assist is a down payment assistance program that provides up to $7,500 for down payment and closing costs.

The Florida Assist Loan is a zero-percent interest, non-amortizing second mortgage loan, which means you do not make any monthly payments on the amount borrowed. You repay the loan in full if you sell the home, transfer ownership, satisfy or refinance the first mortgage, or cease to occupy the home.

The Florida Homeownership Loan Program (FL HLP) Second Mortgage

The FL HLP is a down payment assistance program that provides up to $10,000 for down payment and closing costs.

The FL HLP is a three percent interest rate, fully amortizing second mortgage loan with a 15-year term. You make monthly payments. The remaining unpaid principal balance (UPB) is deferred, except in the event of the sale, transfer of deed, satisfaction of the first mortgage, refinancing of the property or until such time as the mortgagor(s) ceases to occupy the property as his/her primary residence at which time, the FL HLP Second Mortgage will become payable, in full.

Since the FL HLP Second Mortgage carries a monthly payment, this payment may need to be considered in a borrower's debt-to-income (DTI) ratio when credit underwriting.

Florida First Program

This program offers a 30-year fixed rate loan to borrowers who qualify for a bond loan. Qualified borrowers automatically qualify for the Florida Assist program. This program is available only for FHA, VA, and USDA-Rural Development loans.

FL HFA Salute Our Soldiers Military Loan Program

This program offers a 30-year fixed-rate first mortgage loan to borrowers who are active duty military and veterans. This program can be combined with other Florida Housing down payment and closing cost assistance programs.

Florida Housing Finance Agency (FL HFA) Preferred Conventional Loan Program

This program offers a 30-year fixed-rate mortgage. Qualified first-time home buyers also qualify for the Florida Assist program.

Florida Housing Finance Agency (FL HFA) Preferred PLUS Conventional Loan Program

This program offers a 30-year fixed-rate loan. Qualified first-time home buyers also automatically qualify for a 3% or 4% second mortgage, which offers three or four percent of the sales price to be used towards down payment and closing costs. The second mortgage is forgiven at the rate of 20% per year over a five-year term.

For more information about these housing programs, or to find the lenders who work with these programs in your area, visit http://www.floridahousing.org.

Other Mortgage Features

Other mortgage features are Assumable Loans and Seller Financing. Assumable mortgages, such as VA and FHA loans, allow a buyer to take over a seller's original mortgage. The buyer must then obtain a loan for the balance of the purchase price. If lenders agree to an assumption, they may review the new buyer's credit history and adjust the interest rate of the loan to current market conditions. Many fixed-rate mortgages written since the late 1970s contain a "due-on-sale" clause, however, which prohibits an assumption. This protects the lenders when buyers want to assume sellers' existing low-rate mortgages.

With seller financing, a seller provides all or part of a buyer's first and second mortgage. While sellers may offer a slightly below-market interest rate, they may also require a balloon payment of the entire loan balance within a few years of refinancing at market rates. To eliminate possible pitfalls, seller-financed loans should be prepared and reviewed by an attorney.

Other options include balloon, reverse annuity, shared appreciation, and renting with an option to buy.

Sources: https://www.va.gov/housing-assistance/home-loans/

https://www.floridahousing.org/

WORKSHEET: Shopping for a Mortgage

Description	Option (1)	Option (2)	Option (3)
Lender			
Contact name			
Phone number			
Website			
Loan Amount Needed	$	$	$
Types of Mortgages Available (FHA, USDA)			
Interest Rate			
Points			
APR			
Rate Lock-in • After loan approval or at application? • Written agreement? • For how long? • Covers rate and points?			
Loan Terms Available			
Fees			
Application			
Origination			
Credit Report			
Document Preparation			
Underwriting			
Appraisal			
Survey			
Courier			
Flood Certification			
Assumption (if applicable)			
Lender’s Attorney			
Title Search and Insurance			
Other			
Are Escrows Required for Taxes and Insurance?			
Minimum Down Payment • With PMI • Without PMI			

Description	Option (1)	Option (2)	Option (3)
If PMI is required: • Upfront cost • Monthly premium • Automatically canceled when?			
Prepayment Penalty: • Yes or no? • If yes, how long is it in effect?			
Is the Loan Assumable?			
Application Options • In-person • Phone or fax • Online			
Payment Options • Monthly • Bi-weekly • Automatic • Other?			
Is payment data reported to national credit bureaus?			

Look for warning signs of a possible "predatory" lender:

- Prepayment penalty of five years or longer
- Requires credit life insurance premium be added to the mortgage loan amount or paid as a lump sum at closing
- Does not report your mortgage payment history to the three national credit bureaus

Reference: https://www.bankrate.com/mortgages/removing-private-mortgage-insurance/

CHAPTER 6

Additional Financial Aspects of Homeownership

Carry Adequate Homeowner's Insurance

Homeowner's, or hazard, insurance is a wise way to protect yourself and your investment. Homeowner's insurance protects against financial loss in the event of destruction or damage to your home and personal property. It will help pay to repair or rebuild your home and replace personal property lost to theft, fire, or disasters such as storms.

Although Florida law does not require homeowner's insurance, your lender will require you to insure your home as long as they hold the mortgage. There also may be special requirements for insurance, such as those from developments and subdivisions, even if you don't hold a mortgage. It is your responsibility to shop around, compare, and select the best policy for you.

Coverage Areas
Generally, you'll need insurance that provides three areas of coverage:
- Property
- Personal liability
- Medical payments

Property
This covers:
- Structure (house)
- Other structures (shed, fences, etc.)
- Personal property (possessions, contents of home)
- Loss of use (living expenses if home is unlivable due to damage) (also called Additional Living Expense or ALE)

Be aware that you may need additional coverage for some personal property, such as antiques, firearms, collections, etc. Protection for these items may require a special endorsement, or addition, to your insurance policy to be adequately covered. Speak with your insurance agent to determine your need for an endorsement or addition to your policy.

Personal Liability
This protects you against a claim or lawsuit resulting from bodily injury or property damage to others while on your property, such as a neighbor slipping and falling in your house.

Medical Payments
These pay medical expenses for persons *other* than residents who are accidentally injured on your property. This coverage does *not* apply to anyone living in the house.

Coverage Types
There are two types of insurance coverage:
- Actual cash value
- Replacement cost value

Actual Cash Value
Actual cash value is the amount needed to repair or replace damage to your home after depreciation. It is a computed value of the insured property.

Replacement Cost Value
Replacement cost is the amount needed to replace or repair your damaged property with materials of similar kind and quality, without deducting for depreciation. Your insurance agent may offer you replacement cost coverage for your home. If you choose not to have this coverage, you will be required to sign a statement on the application form stating that you do not want it.

Be sure you carry adequate insurance in case of damage. When you purchase homeowner's insurance, you need to buy enough to protect the structure and your personal possessions including clothing and household goods in the event of a loss. A general

guideline is to cover your home and contents for at least 80% of the replacement value, excluding land. This means that you would be responsible for damages equal to the deductible if you have to file a claim and that claim gets approved.

To determine how much insurance you should purchase, multiply the number of usable square feet by the present cost of construction per square foot in the area OR hire a professional appraiser to estimate the cost of rebuilding. Always remember to keep your coverage up to date. Many policies offer an inflation guard endorsement that gradually increases the coverage limits annually to keep current with prices and inflation. If your policy lacks this endorsement, you will need to update your coverage periodically with your insurance agent or company. Check also for law and ordinance coverage – this covers the increased cost of repairing or rebuilding a severely damaged or destroyed home to comply with current building codes.

Review the Declarations page of your policy before closing on your home purchase and annually with each renewal. The Declarations page is the first page of the policy which contains specific policy information, including the different types of coverages included in the policy, coverage limits, coverage costs, policy forms, endorsements, supplemental coverage(s), and the deductibles. Make sure the policy adequately covers your property. Insurance companies can change what is covered with each renewal so review your policy and contact your insurance agent if you have questions or need to make changes to your coverage.

Flood Insurance

Most homeowner's insurance policies exclude damage caused by floods (rising water). Additional coverage for flood protection may be required if you are buying in a flood zone. If you are not buying in a flood zone, this coverage is optional. Based upon where your home is located, you may qualify to purchase flood insurance through the National Flood Insurance Program (NFIP). Flood insurance coverage generally requires a 30-day waiting period before the policy becomes effective, unless purchased at the same time as your homeowner's insurance policy. You can only purchase flood insurance through an insurance agent or an insurer participating in the NFIP. If your insurance agent does not sell flood insurance, you can contact the NFIP Referral Call Center at 1-800-427-4661 for an agent referral.

For more information regarding flood insurance, contact the National Flood Insurance Program at 1-800-427-4661 or visit https://www.fema.gov/national-flood-insurance-program.

Hurricane Deductible

Your homeowner's insurance policy will have a **standard, or all peril, deductible**, which is the amount of money you must pay out-of-pocket toward damages or a loss before your insurance company will pay for a claim. If you file a claim and it is covered, the deductible is subtracted from the amount paid by your insurance company. For example, your house suffers damage from a severe thunderstorm, and you file a claim for the repairs. Your claim is approved, and your insurance company awards you $3,000 to pay for the repairs. If you have a $1,000 deductible, you will receive a check from the insurance company for only $2,000; you will be responsible for paying the remaining $1,000 out-of-pocket to the contractor.

The **hurricane deductible** is the amount you must pay out-of-pocket before your insurance company will issue any payment for damage caused by a hurricane. All insurance companies must offer hurricane deductible options of $500, two percent, five percent, or ten percent of the policy dwelling or structure limits, unless the specific percentage deductible is less than $500. As such, your hurricane deductible may be considerably higher than your standard deductible. It is noted on your policy Declarations page.

When does the hurricane deductible apply? It begins at the time a hurricane watch or warning is issued for *any* part of Florida by the National Hurricane Center and ends 72 hours after the last hurricane watch or warning is issued for any part of Florida. Florida law has established a single season (calendar year) hurricane deductible, which applies to all covered windstorm claims that occur during a hurricane. You pay only one hurricane deductible per calendar year as long as you are insured by the same insurance company or an insurance company from the same group for all subsequent hurricanes during that year. If Hurricane A damages your home in June and you file a claim with ABC Insurance, they will charge you the hurricane deductible. If Hurricane G damages your home in October and you file a claim, they will charge you the all peril deductible if you met your hurricane deductible with the claim for Hurricane A. However, if you changed your insurance coverage to XYZ Insurance in September and you file a claim

for Hurricane G damage, XYZ Insurance will charge you the hurricane deductible because you changed insurance companies within the same calendar year.

Force-Placed Homeowner's Insurance

It is important for you to shop for and obtain homeowner's insurance for your home before you close on the loan. If you fail to obtain homeowner's insurance, your lender will purchase it for you; this is known as "force-placed" insurance.

Force-placed insurance premiums are very expensive, compared to the premium for a policy you obtain yourself. The policy covers only the structure and not your personal property; some policies may cover only the loan's outstanding balance, so it would pay off the mortgage but there would be no funds to repair damages or replace the house. The lender purchasing the policy is the insured party, so you may not have any rights to the policy, even though you are paying the premium.

Shopping Tips for Homeowner's Insurance

You can save money on homeowner's insurance by shopping around for rates.

- **Make sure you are comparing "apples to apples" in coverage amounts.** One insurer may give you a lower quote, but the amount of coverage is significantly less than that of another insurer. Compare similar levels of coverage.
- **Check for discounts.**
  - **Multi-line.** Many insurers will give you a discount on one or both policies if you insure both your home and your vehicle(s) with them.
  - **Renter-to-Homeowner Policy.** If you currently have renter's insurance, ask for a rate quote for a homeowner's policy. Some companies will give you a discount for being a continued customer with them.
  - **Safety features.** Newer homes may qualify for discounts, since they are built to updated building codes that offer more storm-resistance. The way in which the roof is attached to the house can net a discount (may require a wind mitigation survey), as can alarm systems, sprinkler systems, and deadbolts on exterior doors. Ask the agent for other available discounts.

Be aware that some insurers will not write a policy or will charge you a higher premium if you have a swimming pool, a trampoline, or a treehouse, or own certain dog breeds, due to an increased liability risk. Also, you may have a more difficult time obtaining homeowner's insurance on older homes, especially those with the original wiring due to the increased fire risk.

Apply for Homestead Exemption

Keep up with current tax exemptions that are available to you. Currently, Florida law allows at least $25,000 in residential property value to be tax exempt. However, depending on the value of your home, you may be eligible to receive an additional exemption of $25,000. The first $25,000 exemption applies to all property taxes; the additional $25,000 applies to the assessed value between $50,000 and $75,000 and ONLY to non-school taxes.

For example, if your home assesses at $125,000 and you have filed for homestead exemption, the first $25,000 is exempt from all property tax. The next $25,000 of value is taxable, while the third $25,000 of value is exempt from non-school taxes. The remaining $50,000 of value is taxable.

It is your responsibility to file for homestead exemption. If you fail to file, you will have to pay property taxes on the full-assessed value of your home. Shortly after you close on your home, you should go to the county property appraiser's office to file the necessary papers. You need only file one time once you own the property. It must be your primary residence and you may file for homestead exemption for only one property at a time. **You must take your title for the house, a deed, or contract for the deed, and be a permanent resident living in the house on January 1 of the year in which you apply**. The deadline to apply for homestead exemption is March 1 of the year in which you apply.

There are additional exemptions available to qualified homeowners. These include:

- Age 65 and older - limited income; exemption is determined by local ordinance
- Widowed
- Blind
- Total and Permanent Disability
- Disabled Veteran
- Surviving spouse of service-connected disabled veteran
- Surviving spouse of veteran who died while on active duty
- First Responder totally and permanently disabled in the line of duty or surviving spouse
- Surviving spouse of first responder who died in the line of duty

You may apply for these additional exemptions when you apply for homestead exemption or as you become eligible. For more information, contact your county Property Appraiser's office or visit https://floridarevenue.com/property/Documents/pt113.pdf.

Each January, the county Property Appraiser will send you a notification regarding your continued eligibility to receive your homestead exemption and any additional exemptions. If nothing has changed, you do not need to do anything. If you no longer qualify for one or more exemptions, you must notify the Property Appraiser's office by March 1 to have the exemption(s) removed from your property record. There are financial penalties if you claim an exemption for which you are no longer eligible!

Property Taxes

Your property taxes include:

- County Property Tax
- School Board Tax
- Water Management District Tax
- City Tax – if you reside inside the city limits
- Fire Rescue EMS
- And any additional assessments such as solid waste or improvements

Property taxes are calculated based on the **millage rate**, the amount per every $1,000 of a property's assessed value. Each of the above levying authorities is subject to the maximum millage limitations outlined by Florida law. Millage rates can increase or decrease each year, based on the annual budget for each authority and property values. If property values increase, the millage rate may remain the same or decrease, since properties are worth more. If property values decrease, the millage rate may rise to make up for the lost revenue from higher property values the previous year. In August of each year, the county Property Appraiser may send a proposed tax bill to you, outlining your proposed property tax charges for the coming year. The notice also will include the dates, times, and locations of the public hearings for each of these levying authorities so property owners can ask questions and voice their concerns before the final vote on millage rates is taken.

Property taxes become due November 1 of each year. If you pay your taxes by that date, you will receive a four percent discount over waiting until March 1 of the following year, the final due date for all property taxes. Each month you delay, you lose a one percent discount, so you can save considerable money by paying your property taxes by November 1. If your lender pays your property taxes from your escrow account, check your monthly statement to confirm they are paid on time to receive the maximum discount.

Set Up an Escrow Account

An escrow account is a fund established by your lender that holds reserve funds to pay your property taxes and homeowner's insurance on your behalf as they become due on your home during the year. Mortgages insured by the Federal Housing Administration or VA require escrow accounts. Most other mortgages also require an escrow account, though some may allow you to negotiate for the right to pay your own taxes and insurance. If you will be paying your own taxes and insurance, it is strongly recommended to set up a savings account for this purpose and to save each month for these expenses. It is much easier to save monthly than to have to come up with the funds all at once. If your homeowner's insurance is due near the same time as your property taxes, you will have a major outlay of money at one time!

When an escrow account is required, be aware that any changes in property taxes or insurance will cause a change in your monthly mortgage payment. One-twelfth of the tax and insurance premiums for the year is added to your monthly mortgage payment and held in the escrow account so that enough money is usually available when each is due. This protects both the mortgage lender and the investment on your home. When you establish an escrow account, the Real Estate Settlement Procedure Act (RESPA) limits the amount of the extra amount to ensure that the lender has enough money to make the payments when due ("cushion") to a maximum of two months of escrow payments. RESPA also protects your right to receive an initial escrow account statement within 45 days of your closing.

Each year, your lender will perform an **escrow analysis** to make sure you are paying enough each month to cover your property taxes and homeowner's insurance for the year. They will review your account based on the previous year's property tax and homeowner's insurance payments and calculate the point when you will have the least amount of money in your escrow account after all payments have been made. If this amount is less than two months of escrow payments, you will need to make up the shortage. This can be done either by paying the shortage in full in one payment or spreading out the payments over the following 12 months. Your new monthly payment will be calculated, and you will be notified when the new payment amount will go into effect. This usually occurs if there was an increase in property taxes and/or homeowner's insurance. If taxes and/or insurance go down and you have more than two months of escrow payments in your account at the lowest point, your lender will refund you the difference or, if it is below a minimum amount set by the lender (for example, less than $50), they will leave the overage in your account and adjust your monthly payments down accordingly.

Other Financial Aspects

Maximize Tax Deduction

Mortgage interest and property taxes may be fully deductible on income tax, although you must use a long form and itemize deductions. Points paid on a mortgage may count as a deduction on income tax in the year in which they were paid. Consult a tax advisor to assist you with maximizing tax deductions after you purchase a house.

Prepay the Mortgage

Regularly paying extra on your mortgage principal will help you pay the loan off sooner and save you money in the long run—paying as little as $25 extra a month can save you thousands of dollars over time. You can make one extra mortgage payment a year by dividing your monthly payment by 12 and adding $\frac{1}{12}$ to each month's payment. At the end of the year, you have made one extra payment, with all of it being applied to the principal balance. When you pay extra on your mortgage, it is best to write two checks – one for the monthly payment amount and a second for the extra amount; make a note on that check's "Memo" line: "For principal only." This clarifies the purpose of the second check and that it is to be applied to the principal balance, not toward next month's interest. Some lenders require extra payments to be submitted at the same time as the monthly payment; otherwise, they may apply the extra amount to interest. If you pay your mortgage payment online, there should be a box to indicate additional principal or escrow payments; fill in the extra amount for principal with your monthly payment and submit together. Make sure your mortgage has no penalties for paying if off early.

Keep Good Records of Home Improvements

It is important to save all receipts for capital home improvements for as long as you own the house, plus three years. Like any other investment, if a house sells at a profit, you must pay taxes on that profit. Those profits could qualify as capital gain, although you may be able to deduct any money you spend on capital home improvements. However, there are some exemptions depending on how long you have owned the property. Generally, when selling a primary residence, a single owner can make a profit up to $250,000 and married owners can make a profit up to $500,000 and not owe any taxes.

A capital home improvement must add to a property's value, prolong its life, or adapt it to a new use. Examples of capital home improvements are landscaping, wall-to-wall carpeting, wood floors, siding, and screen enclosures. Everyday repairs are not considered capital improvements.

Sources: https://www.myfloridacfo.com/Division/Consumers/FloridasHurricaneDeductible.htm

https://www.myfloridacfo.com/Division/Consumers/understandingCoverage/Guides/documents/HomeownersToolkit.pdf

CHAPTER 7

Your Legal Rights

Fair Housing Act

The Fair Housing Act prohibits discrimination in sales and rentals of housing units and in mortgage lending based on the following seven characteristics:

- Race
- Color
- National origin
- Religion
- Sex
- Familial status (families with children under the age of 18, or who are expecting a child)
- Disability (physical or mental)

Exemptions

The Fair Housing Act covers most housing, but there are some exemptions. Among those that are exempt is the sale or rental of any single-family house by an owner only under the following conditions:

- the owner does not own or have interest in more than three single-family houses at any one time.
- if the house is sold or rented without the use of a real estate broker, agent, or salesperson or the facilities of any person in the business of selling or renting homes that is sold or rented directly by the owner without using any type of broker.
- if the owner resides in the house at the time of the sale or rental or has resided in the house within 24 months before the sale or rental; and,
- owner-occupied building with no more than four units.

In addition, housing for older persons is exempt from the prohibition against familial status discrimination only.

Summary of Prohibited Actions

In Sale or Rental of Housing

- Refusing of sales, rental, negotiation of housing, and dwelling
- Making housing unavailable or false denial of housing availability for inspection, sale, or rental
- Setting different terms, conditions, or privileges for sale or rental of a dwelling
- Providing different housing services or facilities

In Mortgage Lending

- Refusing to make a mortgage loan, to provide information regarding loans, or to purchase a loan
- Imposing different terms or conditions (interest rates, points, or fees) on a loan or for purchasing a loan
- Discrimination in appraising property

Other

- Refusal of permitting a person with a physical or mental disability, or with any history of such a disability, to make any reasonable modification to the person's dwelling or common use areas at the person's own expense.
- Refusal to make reasonable accommodations in rules, policies, practices, or services, if necessary, for the person with a disability to use the housing
- Advertising or making any statement that indicates a limitation or preference based on the protected characteristics
- Threaten, coerce, intimidate, or interfere with anyone exercising a fair housing right or assisting others who exercise that right

Report of Violations

If you think your rights have been violated, you have one year to report the violation. There are three ways to report your claim:

- **Report the Violation Online.** You can file your claim using the online form at https://portal.hud.gov/FHEO903/Form903/Form903Start.action
- **Report the Violation via Postal Mail.** You can file your claim by writing a letter regarding any violation to the U.S. Department of Housing and Urban Development (HUD) and by mailing it to:
  Office of Fair Housing and Equal Opportunity
  Department of Housing and Urban Development
  Room 5204
  451 Seventh St. SW
  Washington, DC 20410-2000
  Or you also can write a letter regarding any violation in Florida to the Atlanta Regional Office of FHEO (Fair Housing and Equal Opportunity):
  Fair Housing Hub
  U.S. Dept. of Housing and Urban Development
  Five Points Plaza
  40 Marietta Street, 16th Floor
  Atlanta, GA 30303-2808
  If you write a letter to file your claim, the following information should be included in your letter:
  - Your name and postal address
  - The name and address of the person your complaint is about
  - The address of the house or apartment you were trying to rent or buy
  - The date when this incident occurred
  - A short description of what happened
- **Report the Violation via Phone.** For violations in Florida, you can file your claim by calling the Atlanta Regional Office of FHEO at a toll-free number 1-800-440-8091 or (404) 331-5140; TTY (404) 730-2654.

Further Information

For further information on the Fair Housing Act, go to the Fair Housing and Equal Opportunity page on the HUD Web site (https://www.hud.gov/program_offices/fair_housing_equal_opp) or contact the Atlanta Regional Office of FHEO as listed above.

Fair Credit Reporting Act (FCRA)

The federal Fair Credit Reporting Act (FCRA) promotes the accuracy, fairness, and privacy of information in the files of consumer reporting agencies (CRAs).

Summary of Your Rights

- To obtain one free credit report every 12 months upon your request from each nationwide credit bureau (Equifax, Experian, TransUnion) and from nationwide specialty CRAs
- To know what is included in your file
- To ask for your credit score
- To dispute incomplete or inaccurate information—CRAs must correct or delete inaccurate, incomplete, or unverifiable information within 30 days
- To be informed of any negative action using your credit report
- To give consent for your credit report to be provided to employers
- To limit “prescreened” offers of credit and insurance you receive based on information in your credit report
- To place a “security freeze” on your credit report
- To seek damages from violators
- Identify theft victims and active duty military personnel have additional rights.

For more information, visit http://www.consumerfinance.gov/learnmore.

Report of Violations

If you think your rights have been violated and you would like to file a complaint, visit the Federal Trade Commission’s web site at: https://reportfraud.ftc.gov/#/

Further Information

For further information on the Fair Credit Reporting Act, contact the Federal Trade Commission (FTC) at 1-877-FTC-HELP (1-877-382-4358) or TTY 1-866-653-4261 or visit the FTC Web site at: http://www.ftc.gov.

Equal Credit Opportunity Act (ECOA)

The Equal Credit Opportunity Act (ECOA, or Title VII of Consumer Credit Protection Act) is a federal law that requires lenders to make credit available equally and prohibits creditors from discriminating based on the following characteristics:

- Race
- Color
- National origin
- Age
- Sex
- Marital status
- Religion
- Whether or not receiving public assistance income

Summary of Prohibited Actions
Because of the consumer protections under ECOA, creditors are prohibited from:

- Discouraging your credit application based on the eight protected characteristics
- Considering the protected eight characteristics when making a decision to give you credit
- Asking if you are widowed or divorced
- Inquiring about your plans for having or raising children
- Refusing to consider reliable public assistance income the same way as other income
- Discounting your income because of your sex or marital status
- Refusing to consider regular alimony, child support, or separate maintenance payments

Additional Rights
In addition to prohibition of the actions listed above, you also have the right:

- To have credit in your birth name, your first name and your spouse's last name, or your first name and a combined last name.
- To get credit without a cosigner if you meet the creditor's standard
- To have a cosigner other than your spouse when you need a cosigner
- To keep your own account after you change your name, marital status, reach a certain age, or retire, unless the creditor has evidence that you are not creditworthy
- To know whether your application was accepted or rejected within 30 days of filing your complete application
- To learn specific and reasonable reasons for the creditor's decision

Report of Violations and Further Information
If you suspect your rights have been violated, complain to the creditor and make the creditor know that you are aware of the Equal Credit Opportunity Act. The creditor may find an error or change his/her decision.

If the creditor does not correct the decision and if you still think your rights have been violated, write to an appropriate government agency depending on characteristics of the creditors. For further information on the Equal Credit Opportunity Act, including where to report your complaint, contact the Federal Trade Commission (FTC) at 1-877-FTC-HELP (1-877-382-4357) or TTY 1-866-653-4261 or visit the FTC Web site at http://www.ftc.gov.

Real Estate Settlement Procedures Act (RESPA)

The Real Estate Settlement Procedures Act (RESPA) requires lenders, mortgage brokers, or servicers of home loans to provide borrowers with pertinent and timely disclosures of the nature and costs of the real estate settlement (or closing) process. RESPA also prohibits abusive practices that increase the cost of settlement services and provide kickbacks and places limitations upon the use of escrow accounts.

Summary of Protections

- **Loan Estimate.** RESPA requires that the lender or mortgage broker provide you with a document called a Loan Estimate within three business days of receiving your application. This document provides you with important information about the loan you have requested including the interest rate, monthly payment, taxes, insurance, and total closing costs. This form also has information on any other special features, such as prepayment penalties.

- **Servicing Disclosure Statement.** RESPA requires the lender or mortgage broker to tell you in writing whether it expects that someone else will be collecting your payments within three business days of your loan application. This is known as transferring the mortgage servicing.
- **Affiliated Business Arrangement Disclosure.** When a lender, real estate broker, or other participant in your settlement refers you to an affiliate for a settlement service, RESPA requires the referring party to give you an Affiliated Business Arrangement (or AfBA) Disclosure. RESPA also prohibits sellers from requiring borrowers to purchase title insurance from specific companies.
- **Inspection of Closing Disclosure.** RESPA protects your right to inspect the Closing Disclosure no less than three business days before actual closing, which itemizes all charges imposed on borrowers and sellers in connection with the settlement (closing). The fully completed Closing Disclosure generally must be delivered or mailed to you at or before the settlement. You must acknowledge to the lender you received the Closing Disclosure, or the closing may be delayed.
- **Escrow Account Operation and Disclosures.** When you establish an escrow account, RESPA limits the reserve amount for property taxes and insurance that the lender can keep in escrow to a maximum of two months of escrow payments. At the closing or within the next 45 days, the person servicing your loan must give you an initial escrow account statement. Your lender or servicer will review the escrow account annually and send you a disclosure each year that shows the prior year's activity and any adjustments necessary in the escrow payments that you will make in the forthcoming year.

Report of Violations

If you think your rights have been violated, you can file your complaint by writing:
Director, Office of RESPA and Interstate Land Sales
U.S. Department of Housing and Urban Development
Room 9154
451 7th Street, SW
Washington, DC 20410

Your complaint letter should include:

- Your name and phone number
- Violator's name, address, and phone number
- Description of violation

You also may contact them by phone: 1-800-225-5342; TTY: (202) 708-1455 or
E-mail: hsg-respa@hud.gov

Further Information

For further information on the Real Estate Settlement Procedure Act, go to the RESPA – Real Estate Settlement Procedure Act page at the U.S. Department of Housing and Urban Development (HUD) Web site, https://www.hud.gov/hudprograms/respa.

Truth-in-Lending Act (TILA)

The Truth-in-Lending Act (TILA, or Title I of the Consumer Credit Protection Act) requires all creditors to make written, standardized disclosures about their terms and costs to borrowers before they are legally bound to pay the loan so they can comparison shop.

Terms include:

- Annual percentage rate – the cost of credit expressed as a percentage rate per year
- Finance charge – cost of credit expressed as a dollar amount; interest and fees that will be paid over the life of the loan
- Amount financed – the dollar amount you are borrowing
- Total of payments – the sum of all the payments (principal and finance charges) that you will have made by the end of the loan

TILA will also include information on:

- Number of payments
- Monthly payment
- Late fees
- Prepayment penalties (if there are any)

TILA also protects consumers' rights to cancel certain transactions that involve the establishment of a security interest in the consumer's residence, regulates certain credit card practices, and provides a means for fair and timely resolution of credit billing disputes.

Further Information

For further information on the Truth in Lending Act, contact the Federal Trade Commission (FTC) at 1-877-FTC-HELP (1-877-382-4357) or TTY 1-866-653-4261 or visit FTC Web site at http://www.ftc.gov.

TILA-RESPA Integrated Disclosure Rule

TILA-RESPA Integrated Disclosure Rule, or TRID, is also called the Know Before You Owe rule and requires lenders to provide easy to use and understand mortgage disclosure forms that clearly outline the mortgage terms to the borrower and provide detailed explanations on how the forms should be completed and used.

This rule combines and condenses four past disclosures down to two easier to understand disclosures: Loan Estimate and Closing Disclosure.

Loan Estimate

This three-page form is designed to help consumers understand the features, estimated costs, and risks of the mortgage for which they are applying. The Loan Estimate must be provided to the consumer no later than three business days after submitting a mortgage application. Key features:

- Loan terms including:
  - Loan amount
  - Interest rate
  - Monthly principal and interest payment
  - Prepayment penalties
- Projected payments including:
  - Mortgage insurance
  - Escrow
  - Monthly PITI payment
- Closing costs
- Cost of the loan
- Lender contact information
- Buyer's signature requirement

Closing Disclosure

This five-page form is designed to help consumers understand all the costs associated with the transaction and provides you the final details on the mortgage loan you selected. The Closing Disclosure must be provided to the consumer **at least three business days prior** to closing on the loan. Key features:

- Final loan terms
- Projected payments
- Final closing costs
- Cash to close
- Summary of transactions
- Additional information about the loan
- Loan disclosures
- Lender contact information

Compare the Closing Disclosure with the Loan Estimate. If there are any inaccuracies, if the loan product changed, or a prepayment penalty was added, the lender must provide you with a new disclosure at least three business days prior to closing on the loan.

Between the time you receive the Loan Estimate to when you receive the Closing Disclosure, there are some costs that can increase and some that cannot.

Costs that **cannot** increase:

- Fees paid to the lender, mortgage broker, or affiliate of either
- Fees for a required service that the borrower is not allowed to shop for if the provider of said service is not affiliated with the broker or lender
- Transfer taxes

Costs that **can increase up to 10%**:

- Fees for required services that the borrower selects from a list the lender providers
- Government recording charges

Costs that **can increase up to any amount**:

- Prepaid interest, property insurance premiums, and initial escrow account deposits
- Fees for required services that the borrower can shop for
- Fees for third party services that the lender does not require

Further Information

For further information on the TILA-RESPA Integrated Disclosure Rule, contact the Consumer Finance Protection Bureau (CFPB) at 1-855-411-CFPB (1-855-411-2372) or TTY 1-855-729-2372 or visit the CFPB Web site at http://www.consumerfinance.gov.

Home Ownership and Equity Protections Act

The Home Ownership and Equity Protections Act (HOEPA) is an amendment enacted in 1994 to the TILA to address abusive practices in refinances and closed-end home equity loans with high interest rates or high fees. It was further amended in 2014 to include home equity lines of credit and protections were added to include high-cost mortgages and a requirement that consumers receive homeownership counseling prior to obtaining a high-cost mortgage.

A loan is subject to HOEPA if specific criteria apply. A loan is subject to HOEPA if:

- The APR exceeds the Treasury rates for comparable securities by:
  - 6.5% for first liens
  - 8.5% for first liens less than $50,000 and secured by personal property
  - 8.5% for junior liens
- Total fees and points to be paid by the borrower at or prior to closing exceed the larger of 5% of the loan or a fixed amount adjusted annually by the CFPB.

HOEPA requires certain disclosures at least three days prior to closing. HOEPA-required disclosures include:

- A written notice informing the consumer that the loan will not be effective until closing or account opening occurs.
- Information on the consequences of default.
- A written warning notice that states the borrower could lose a residence and any money invested in said residence if they do not make the payments.
- The APR, payment amount, and loan amount. On variable rate loans, the lender must disclose that the rate and monthly payment may increase and the amount of the maximum monthly payment.

HOEPA prohibits or restricts certain predatory practices for high-cost mortgages. Banned or restricted practices include:

- Negative amortization, balloon payments, prepayment penalties, and due-on-demand features.
- Recommending default on an existing loan to be refinanced by a high-cost mortgage.
- Charging a fee to modify, defer, renew, extend, or amend a high-cost mortgage.
- High late fees and pyramiding of late fees. There are rules for imposing late fees when the consumer resumes making payments after missing one or more payments.
- Fees for generation of payoff statements, with limited exceptions.
- Financing points and fees. However, lenders can finance closing charges excluded from the definition of points and fees.
- Purposely structuring a transaction to evade HOEPA coverage.

HOEPA homeownership counseling requirements for high-cost mortgages:

- Consumers must receive homeownership counseling from a HUD-approved housing counselor prior to obtaining a high-cost mortgage.
- The lender must provide the applicant a written list of ten homeownership counseling organizations closest to the borrower within three business days of receiving their application.
- The homeownership counselor cannot be affiliated with or employed by the lender.
- Lenders cannot steer the consumer to a particular counseling agency.
- Counseling cannot begin until the consumer has received their RESPA loan estimate or required disclosures.
- The lender must receive written certification that the consumer received this counseling.
- High-cost mortgage disclosures are required to be provided at least three business days prior to closing.

Further Information

For further information on HOEPA, contact the state Attorney General's office, https://www.naag.org/, banking regulatory agency, https://www.csbs.org/, or the Federal Trade Commission or visit https://www.consumer.ftc.gov/articles/0245-using-your-home-collateral.

CHAPTER 8

Glossary of Terms

Abstract of title – A short history of the ownership (title) of the property. The information comes from research of legal documents and courthouse records.

Acceleration Clause – A provision in a mortgage that gives the lender the right to demand payment of the entire outstanding balance if a monthly payment is missed.

Adjustable Rate Mortgage (ARM) – A loan with an interest rate that may change during the life of the loan.

Amortized loan – To "amortize" a debt is to repay it through regular, equal payments over the life of the loan. Most home loans are repaid this way. Each monthly payment includes both principal and interest payments. Although the payments remain constant, the amount that goes for interest gradually decreases while the amount that reduces the debt (principal) gradually increases. Most home loans are amortized.

Annual Percentage Rate (APR) – The total yearly cost of credit, including interest and other finance charges.

Appraisal – An estimate or opinion of the value of a property. An appraisal is never a factual statement. Mortgage lenders usually require that the appraisal be done by a licensed, experienced appraiser.

Appraised value – The estimated worth of a property determined by an appraiser who has training to determine the estimated value of the property.

Appreciation – An increase in the value of a property due to changes in market conditions or other causes.

Arrears – Payment at the end of the period of use. Payments in arrears are the opposite of payments in advance. When you pay rent on the first of the month for the upcoming month, you pay in advance. When you pay income taxes for a year after year's end, you pay in arrears.

Assessed Value – The dollar value of the home assigned by a public tax assessor for the purposes of taxation.

Assumption of mortgage – The taking over of an existing mortgage by a buyer. The buyer "assumes" the seller's mortgage.

Binder – A preliminary agreement between a buyer and seller which includes the price and terms of the contract.

Buy-down – A finance tool used to lower the mortgage payments for a set amount of time.

Buyer's agent – A salesperson or broker who helps buyers by showing houses for sale, presenting purchasing contracts, and helping search for financing, insurance, and other sale-related requirements.

Cap – A provision of an ARM limiting how much the interest rate or mortgage payments may increase or decrease.

Certificate of title (Option of title) – A document stating the judgment that the seller has good title (ownership) to the property to be sold. It is based on an examination of the public records and is signed by the title examiner (an attorney or title company agent). It is not title insurance.

Chain of title – A listing, in order, of all previous holders of the title (property owners) back to an acceptable starting point.

Clear Title – A title that is free of liens or legal questions as to ownership of property.

Closing Costs – The fees paid by the seller and buyer to complete a real estate transaction.

Closing statement (HUD-1) – The closing statement clearly and accurately accounts for the money exchange between buyer and seller. The purchase price, deposit, mortgage, taxes, insurance, fees, and other charges are listed on the closing statement.

Commission – The fee paid to the real estate brokers and salespersons for successfully concluding a real estate transaction. The commission is paid by the seller to the listing broker at closing. The listing broker "cooperates" or shares the fee with the buyer's agent.

Commitment Letter – A formal offer by a lender stating the terms under which it agrees to lend money to a home buyer.

Contingency Clause – Written conditions in your contract that give you time to evaluate some aspect of the property before you proceed to closing.

Contract – An agreement between two or more competent parties to do something. Commonly used real estate contracts include leases, deeds, and mortgages.

Conventional mortgage – A loan made by a private lender that is neither insured nor guaranteed by the government.

Counteroffer – A rejection of the original offer by proposing a new offer (the original offer is cancelled).

Credit Reporting Agency – A private company that keeps financial records about you and your family. Your credit card accounts, loans, and paying habits make up your credit history. Paying debts on time earns you a good credit rating. Lenders review your credit history and rating, considering your loan application. Few lenders will extend credit to someone with a poor credit rating.

Credit Score – A score-based statistical method used to predict the relative likelihood that you will repay a credit obligation, such as a mortgage loan. The most well-known credit scoring method in the mortgage industry has been developed by Fair, Isaac, and Company and is often referred to as the FICO score.

Deed – A document used to transfer ownership of, or title to, property.

Default – The failure to make a mortgage payment on a timely basis or to otherwise comply with other requirements of a mortgage.

Delinquency – A loan in which a payment is overdue but not yet in default.

Depreciation – A loss in value for any reason; a deduction for tax purposes.

Documentary (DOC) stamps on deeds, State – The State of Florida requires stamps to be placed on all deeds and other documents used as transfers. The charge is based on the total purchase price at the rate of $.70 per $100.00.

Documentary (DOC) stamps on notes, State – The State of Florida requires stamps to be placed on all promissory notes associated with new debt (including some assumed mortgages) at the rate of $.35 per $100.00.

Down payment - The portion of the purchase price paid before closing. The earnest money deposit may be part of, or all of, the down payment. Down payment does not include closing costs.

Down payment and loan amount – The combination of monies used to purchase. The down payment is the buyer's out-of-pocket funds. The loan amount is the money borrowed to pay the rest of the price. In some cases, the loan amount may include some of the closing costs (FHA).

Earnest money deposit – A sum of money delivered by a buyer to show his serious intent to buy the property. The deposit accompanies the offer to buy or rent. It can be applied toward the down payment.

Easement – A right given to another for some use of a property. For example, property owners may grant the power company easements to run utility lines over their property.

Encroachment – An improvement, such as a fence or driveway, that extends across the property line onto another's property without permission.

Escrow or Trust account – Earnest money deposits and monthly taxes and insurance payments are held in a special, third party bank account. This special account is a "savings account" for a homeowner's monthly insurance and tax payments. When these annual bills come due, they are paid from the escrow account.

Equity – An object's worth calculated as value minus debt. For example, a home valued at $50,000 with an outstanding $25,000 debt would have $25,000 in equity.

Equity Loan – A loan based on the borrower's equity in his or her home.

Federal Home Loan Mortgage Corporation (FHLMC) "Freddie Mac" – A secondary mortgage market institution authorized to buy and sell conventional, FHA, and VA loans.

Federal National Mortgage Association (FNMA) "Fannie Mae" – A private institution in the secondary mortgage market that buys and sells mortgages.

Federal Housing Administration (FHA) – Insures approved, qualified home mortgage loans to make them more desirable investments for lenders.

Fixed-Rate Mortgage (FRM) – A mortgage in which the interest rate does not change during the entire term of the loan.

Flood Insurance – Insurance that compensates for physical property damages resulting from flooding (rising water). It is required for properties located in federally designated flood areas.

Forbearance – The lender's postponement of foreclosure to give the borrower time to catch up on overdue payments.

Foreclosure – If a mortgage loan is not repaid according to the terms of the loan, the court will transfer ownership of the mortgaged property and it will be sold to repay the debt.

Free and clear – Ownership or title to the property that has no claims or liens.

FSBO (For Sale By Owner) – The seller has not engaged a real estate agent to handle the sale.

Hazard insurance – Insurance against loss resulting from physical damage to the property.

Homestead – A property tax exemption afforded to owners for their primary residence.

Home Inspector – A professional inspector is knowledgeable about residential construction and building systems. Most inspectors in the state are members of the Florida Association of Building Inspectors, Inc. This is a trade non-profit organization whose members follow a code of ethics. An inspector thoroughly inspects the structure, roof, electrical, plumbing, heating, and air conditioning systems, and appliances for soundness. The completed inspection report becomes a checklist of items requiring repair or replacement. An inspection occurs after the seller and the buyer have reached an agreement for the sale.

Homeowner's Insurance – An insurance policy that combines personal liability coverage and hazard insurance coverage for a dwelling and its contents.

Homeowner's Warranty – A type of insurance that covers repairs to specified parts of a house for a specific time period. It is provided by the builder or property seller as a condition of the sale.

Interest/Interest rate – Interest is the price paid to a lender for the use of his money. Interest rate is the interest price stated as percentage per unit of time.

Late Charge – The penalty a borrower must pay when a payment is made after the due date.

Lien – A claim on property for payment of a debt.

Listing(s) – The inventory of properties a real estate company is trying to sell.

Listing agent – The salesperson or broker who agrees to try to sell the property; they represent the seller.

Loan Amount - The loan amount is the balance of the purchase price to be financed.

Loan-to-value (LTV) ratio – The percentage of the property's value that is financed.

Lock-in – A written agreement guaranteeing the home buyer a specified interest rate, provided the loan is closed within a set period of time. The lock-in also usually specifies the number of points to be paid at closing.

Market value – The most probable price for which a property should sell in a competitive market.

Monthly payment (PITI) – A total monthly mortgage payment includes Principal, Interest, Taxes, and Insurance payments (PITI).

Mortgage – The pledging of property as security or collateral for the repayment of a debt. Failure to repay the debt will result in the lender's foreclosure and taking the property from the owner.

Mortgagor – A borrower who gives a mortgage on his property to obtain a loan from a lender.

Mortgage broker – A middle person who finds a mortgage lender for a potential borrower, and vice versa. A broker does not lend money but serves as a matchmaker between lenders and borrowers. A broker earns a commission or fee when a loan is made between parties he has brought together.

Mortgage banker – One who makes or "originates" mortgage loans.

Mortgage Insurance Premium (MIP) – A fee paid by the borrower to guarantee repayment of an FHA-insured loan to protect the mortgage lender against loss, similar to PMI. The premium amount is based on the unpaid loan balance.

Mortgage Lender - A lender of money for the purchase of a home or property. Lenders can be banks, savings and loan institutions, credit unions, individuals, or groups.

Mortgage loan – A loan secured by a mortgage.

Mortgage Margin – The set percentage the lender adds to the index value to determine the interest rate of an ARM.

Multiple Listing Service – a database of homes for sale in an area from which the real estate agent can generate a list of houses with features that meet a buyer's requirements

Negotiation – A method by which a seller and a buyer of a home bargain for the price and conditions they are willing to settle for in the sale of a home.

Notice of Default – A formal written notice to a borrower that a default has occurred, and that legal action may be taken.

Opinion of Title – A formal statement by an attorney about property ownership. It is made after the attorney has examined the legal documents pertaining to ownership.

Option – A right or privilege to purchase property at a specified price during a set period.

Origination fee, loan – A charge by a lender for taking a mortgage in exchange for a loan.

PITI – Stands for principal, interest, taxes, and insurance – the components of a monthly mortgage payment.

Point, mortgage discount – A charge of one percent (1%) of the mortgage value paid to the lender.

Preapproval – The process of reviewing a prospective home buyer's credit reports, verifying income and assets, and approving a defined loan amount; generally valid for approximately 120 days.

Prepaids – Fees collected at closing to cover items such as setting up escrow accounts for property taxes, homeowner's insurance, and mortgage insurance.

Prepayment Penalty – A fee that may be charged to a borrower who pays off a loan before it is due.

Prequalification – The process of determining how much money a prospective home buyer will be eligible to borrow before a loan is applied for.

Principal – The debt or loan that is to be repaid.

Private Mortgage Insurance (PMI) – The insurance protects lenders against potential loss from borrower default. Because PMI reduces risk, lenders may consider larger loans and smaller down payments than would otherwise be practical. PMI is charged on most conventional mortgages with a down payment less than twenty percent of the purchase price.

Prorate – To assign share of charges and credit to the buyer and the seller according to their individual period of ownership.

Promissory Note – A contract detailing the terms of a promise by one party (the maker) to pay a sum of money to the other (the payee). The terms of a note typically include the principal amount, the interest rate, if any, and the maturity date.

Purchase and Sales Agreement – A written contract signed by the buyer and seller stating the terms and conditions under which a property will be sold.

Qualifying Ratios – Guidelines applied by the lenders to determine how large a loan to grant a home buyer.

Real Estate Licensing in Florida – The Florida Real Estate Commission (FREC), created by the Florida Legislature, was given the power to oversee the licensing of brokers and salespersons. FREC functions within the Division of Professions, Florida Department of Business and Professional Regulation (DBPR). Unless specifically exempted, anyone who buys and sells property for compensation must be licensed by the state. Property owners who sell their own property are exempt from the licensing requirement.

Real estate broker – A person licensed by the state who deals in the buying, renting, or sale of houses and other properties for a fee.

RESPA – The Real Estate Settlement Procedures Act (RESPA), a federal statute, protects buyers at settlement as well as when they apply for a mortgage.

Real property – Land, improvements, and everything permanently attached to the land.

Realtor and Realtor Associate – These copyrighted terms are for the exclusive use of brokers or salespersons who are members of the National Association of Realtors (NAR). The NAR is the largest trade association in the real estate industry. Its members agree to work by the "Realtor Code of Ethics."

Record – To place a document or instrument affecting property ownership in the public records of the county in which the property is located.

Refinancing – The process of paying off one loan with the proceeds from a new loan using the same property as security.

Reverse Mortgage (Reverse Annuity Mortgage) – A mortgage whereby the mortgagor borrows on a monthly basis and repays in a lump sum (the reverse of a usual mortgage). Most commonly used by retirees; some loans have minimum age restrictions.

The term may be for a specified number of years or until the property is sold or the borrowers die.

Sales Comparison approach – A way of estimating the value of a home by comparing it to similar properties that have sold in the area.

Sales contract (purchase agreement; contract for sale purchase) – An agreement between parties outlining the terms of a purchase and sale.

Sales Cost approach – A way of appraising the value of a home by determining how much it would cost to replace the structure if it were destroyed

Satisfaction of mortgage – A document recorded by the Court removing a lien(s) from property.

Settlement Sheet – The computation of costs payable at closing which determines the seller's net proceeds and the buyer's net payment (referred to as a HUD-1).

Subject-to-financing – A contingency clause which allows you to safely make an offer to purchase before you know if a bank will approve you for a loan. If you are not approved for a loan, you can legally withdraw your offer.

Subject-to-inspection – A contingency clause which allows you to change your offer if an inspection finds the house needs repair. You can ask the seller to pay for the repairs, offer a lower price, or back out of the deal. You will have to arrange and pay for the inspection, but it may later save you money.

Subject-to-termite inspection – A contingency clause which allows you to legally withdraw your offer if an inspection shows damage from termites.

Subject-to-appraisal – A contingency clause which allows you to change your offer or back out if the appraisal is less than your offering price.

Subject-to-SHIP approval – A contingency clause which allows you to withdraw your offer if funding is denied or unavailable through the SHIP program.

Subordination agreement – A document recorded by the Court ensuring a mortgagee's position.

Survey – Work done by a registered land surveyor to find and describe the exact boundaries of the property. A survey will reveal an encroachment, such as a fence or driveway, that extends onto the property.

Taxes – County and city governments and other units of governments, such as school boards, have the authority to levy taxes against the value of real property. Property owners must pay these taxes. Failure to do so may result in the sale of the property to pay the tax debt.

Tenancy by Entirety – A type of joint ownership of property that provides rights of survivorship and is available only to a husband and wife.

Title – Legal title is the right of ownership and possession. Title, or ownership, passes on to the new owner upon delivery of a deed.

Title Company – The Company searches public records to trace the ownership of the property. The title search will reveal problems with ownership and outstanding claims against the property. Title insurance can protect your mortgage lender and you against undiscovered problems and future disputes of your ownership.

Title Insurance – A policy that protects the holder from any loss resulting from defects in the title. Owner's title insurance protects the buyer against loss; lender's title insurance protects the mortgage lender.

Title search – The search for legal documents that prove ownership of the property.

Truth-in-Lending Act – A federal law that requires lenders to fully disclose, in writing, the terms and conditions of a mortgage, including the APR and other charges.

Underwriting – The process of evaluating a loan application to determine the risk involved for the lender. It involves an analysis of the borrower's creditworthiness and the quality of the property itself.

Veteran's Administration (VA) – Guarantees mortgage loans to encourage private lending agencies to give liberal mortgages to veterans and their widows.

Warranty deed (general warranty deed) – One of the many types of deeds used to transfer ownership from a seller to a buyer. The warranty deed contains the strongest and most comprehensive assurances possible for a seller to give to a buyer.

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