REAL ESTATE CENTER
AT TEXAS A&M UNIVERSITY

HOMEBUYER'S GUIDE

TECHNICAL REPORT 1044

Using a Real Estate Broker

Obtaining a Loan

Evaluating Homes on the Market

Closing

Making an Offer

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HOMEBUYER'S GUIDE

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Revised July 2004

CONTENTS

FOREWORD

Each year more than 100,000 Texans buy homes. Most purchasers are moving up to improved housing. Others are relocating. Many are first-time buyers.

Because large amounts of money and complicated legal commitments are involved, decisions made during the homebuying process can have far-reaching consequences on your finances and personal satisfaction. Homebuyers at all levels need as much information as they can gather.

This guide covers:

- the meaning of homeownership,
- shopping for a home,
- available options,
- obtaining a loan and
- negotiating a sales contract.

This information is not a substitute for the professional advice of a real estate agent or a real estate attorney, but it should help you make better decisions.

HOMEOWNERSHIP

Not everyone buys a home for the same reason. For some, personal taste dictates home selection. For others, it's mainly an investment decision. Most homeowners become aware of the special responsibilities of homeownership only after they purchase a home. Before buying a home, consider your reasons for purchasing, and make sure that your purchase fulfills those objectives. First, let's review some of the major benefits and responsibilities of homeownership to help you set objectives.

Benefits of Homeownership

Pride of ownership. Many people derive satisfaction from owning a home because it symbolizes their commitment to the community and their status as a prosperous citizen. They take pride in their homes as an expression of personal taste. Often they invest much time and money in home improvements and upkeep.

Selection. Buying may be the only way to have the home you want or to live in a particular neighborhood. Usually a wider selection of detached, single-family homes is available for sale than for rent. You may find that the more attractive neighborhoods have few homes for rent. The same often is true for large homes and houses with special features, such as workshops and gardens.

Home improvements. If you can't find the perfect house, you may modify the home you buy. In most cases, this is not possible if you rent. If a landlord allows changes in the property, you have no guarantee that you can continue living there beyond your current lease. By improving the home you buy, you may be able to recover all or much of the investment in a higher sales price. In fact, many buyers make it a practice to buy homes that need improvement and then fix them up to suit personal taste.

Control. Many people feel they have more control of their future when they own a home. Renters have no assurance their lease will be renewed or their rent payments won't go up rapidly when the lease is renewed.

Homeowners may lock in the most important part of their housing cost, the initial price of the home. If they obtain a long-term, fixed-rate loan to buy the home, their house payments may be relatively constant. The portion of the payment used to pay taxes and insurance may rise over time, as may the cost of repairs, but they will be minor compared to interest and principal repayment.

Investment. Homeownership may be a good investment. A home that is well chosen and well cared for can appreciate at or faster than the rate of inflation. Because most homebuyers pay only a fraction of the house's price in cash, the value of their investment, or equity, will increase at an even greater rate. Of course, if the value of the home declines, the owner's equity may be eliminated. Nevertheless, many financial advisors consider owning a home an important part of an investment portfolio.

Tax advantages. Homeownership can be an even better investment when you consider the tax advantages. As a homeowner, you can deduct the portion of the mortgage payments that go towards interest and any property taxes. However, these deductions are valuable only if, combined with other deductible expenses, they are large enough to justify itemizing. (In other words, they exceed the standard deduction.)

Profits, or "capital gains," from selling a home are not taxable unless they exceed $250,000 for a single taxpayer or $500,000 for married taxpayers. This exemption can be used repeatedly, as long as each home is held for at least two years. A capital gain is realized anytime the selling price, less sales expenses, is greater than the adjusted tax basis of the property. Tax basis is the original cost of the home plus the cost of additions and improvements less any gains from previous sales that were deferred (prior to 1997, homeowners could defer capital gains by buying a home at least as costly as the one sold). There is no age limit on the capital gains exemption.

Responsibilities

With so many benefits, you may wonder why everyone doesn't own a home. Some people who could afford to buy a home choose to rent. They don't want the responsibilities that go with ownership.

Commitment to a place. As a homeowner, you usually can't move as readily as a renter. If mobility is important, you may not want to buy. You may know that you will be in a location for a short time. You may need time to find the area in which you want to live. You may expect that your housing needs will change drastically in the near future.

If you buy a home, you will find that moving can be time-consuming and expensive. You usually need to find a buyer for your home. You will have to pay fees and other expenses connected with the sale. Renters generally need only wait until their lease expires to move.

Property maintenance. Depending on the age and condition of the home purchased, you will have some maintenance expenses. Some can often be large and unexpected, such as furnace failure or roof replacement. You will also be liable for injuries to others that occur on your property. If your home catches fire, you will be responsible for replacing it. For these reasons, you will need to carry hazard insurance on your home. As a renter, you can let the landlord take care of maintenance and insurance (although you still have to insure your personal belongings).

Access to funds. Finally, owning a home means you have a substantial portion of your life savings tied up in the house. A home can be an excellent investment, but if values decline, you may suffer a major setback.

Types of Homeownership

The housing market has developed a number of variations to suit most people's tastes and needs for a home. These options have more to do with the rights you possess as a homeowner than with the physical style of the building. How you own your home can be important to your satisfaction with the home and the investment rewards of the purchase. Try to settle on the type you prefer before you start your housing search.

Single-family detached. This is the most common type of home and is what most people have in mind when they think of buying a home. It is simply a house designed for use by one household. It has its own plot of land and is not connected to a neighboring structure. When you buy a single-family detached home, you own the house and land and are solely responsible for their upkeep. You are free to modify the structure and landscape or build outbuildings as long as you comply with local ordinances, codes and deed restrictions.

Condominium. This term refers to another way individual property rights are exercised among the homeowners. Condominiums encompass a number of dwelling units combined in a single building, a complex or a subdivision. In a strict sense, the individual homeowner possesses only the dwelling unit's interior. The structure of the buildings, the grounds and any facilities on the grounds are common areas controlled by a homeowners' association. Every owner is a member of the association, paying periodic fees and having a vote in deciding actions of the association.

The association generally maintains the common areas and sets rules for their use. In practical terms, this means that homeowners can enjoy common facilities, such as a swimming pool, at a fraction of the cost of providing their own. It also means that the homeowner may be much more restricted in what they can do with the home than the owner of a single-family detached home. If you are considering a condominium, you should examine the association bylaws prior to making an offer. Some associations prohibit pets or children.

Condominiums can be large or small, can be part of complexes with hundreds of units or a few units and can be in the form of high-rise buildings, garden apartments, townhouses or detached homes. Some units will be among the lowest priced housing available, while others are among the highest priced.

The more inexpensive units usually are designed to take advantage of the lower land costs associated with high density development. The high-priced units usually are located in highly desirable areas and include many luxury features. Condominiums appeal to people who don't care to do home maintenance.

The use of common areas and home-owner associations may extend beyond condominiums. In specially planned subdivisions, open space and recreational facilities generally are controlled in common through a homeowners' association. Just as in condominiums, these organizations require monthly fees and enforce a set of bylaws governing the use of the common areas.

Likewise, some areas have voluntary associations or neighborhood organizations that enforce private deed restrictions. These restrictions are included in the property deeds of homes within the neighborhood and constrain how owners use their property, including standards on building size and appearance. Prior to making an offer, be sure to obtain information on any bylaws and restrictions that might apply to the home you are considering.

Manufactured Housing. A housing option attractive to many is manufactured housing: homes that are produced in a factory and transported to the site intact or in sections. The modern manufactured home is a distant relative of the old "mobile home" but is much more traditional in appearance. Common features include peaked roofs and various types of exterior treatments similar to site-built homes.

Manufactured homes constructed after 1976 comply with a stringent set of standards enforced by the federal Department of Housing and Urban Development. These standards affect the quality of materials and construction methods, fire safety, energy conservation and durability. New manufactured homes commonly are sold without land and are transported to a site and installed on a foundation.

The site may be purchased or leased within a manufactured home community. Local zoning laws may restrict where a manufactured home buyer can locate the unit. Housing units purchased without land are not eligible for mortgage financing but can be purchased with personal property loans. Manufactured homes generally are less expensive than site-built homes of comparable size and quality.

Lease options. Sometimes it's possible to try out a home before committing to a purchase. Some sellers are willing to lease a home with an option to buy within a specified period. You may be asked to pay a fee for the option. This fee sometimes may be applied toward the purchase price if the option is exercised but forfeited if not. In markets where homes are hard to sell, however, option fees usually are not charged. In addition, the seller may be willing to apply some of the rent toward the purchase price — but this is negotiable when the lease-purchase option is contracted. Lease options are good ways to try out a home before buying and, if the rent is applied, may be a way to save for a down payment.

A new home? As you search the market, you will find some homes that are newly built or at least never occupied. Often, the prices of these homes are no higher than for comparable older housing. You might wonder about the advantages of buying a new home compared to an older one. New homes, of course, should be cleaner, more modern and last longer than existing homes. Appliances, fixtures and heating and cooling equipment are new and should contribute to lower maintenance costs compared to an older home. The builder may offer a warranty or special financing.

On the other hand, older housing is more likely to be located in an established neighborhood. Lawns and plantings generally are mature and well established. Features may be included in the home, such as a pool or garden, that probably add much less to the cost than building from scratch. Primarily, however, purchase of a new home is a matter of taste and preference.

THE HOMEBUYING PROCESS

Buying a home involves a two-part decision:

- satisfying your housing needs and desires and
- investing in an expensive and durable asset.

First, you want a home that provides the comfort, security and enjoyment you expect. You want to find a place that fits your lifestyle, satisfies your tastes and is within your allowable housing budget. Secondly, you want a place that will hold or improve its value and appeal to buyers in the market when reselling it. You need to put some time into searching the market and considering what you find before purchasing. A poor decision may be expensive to correct.

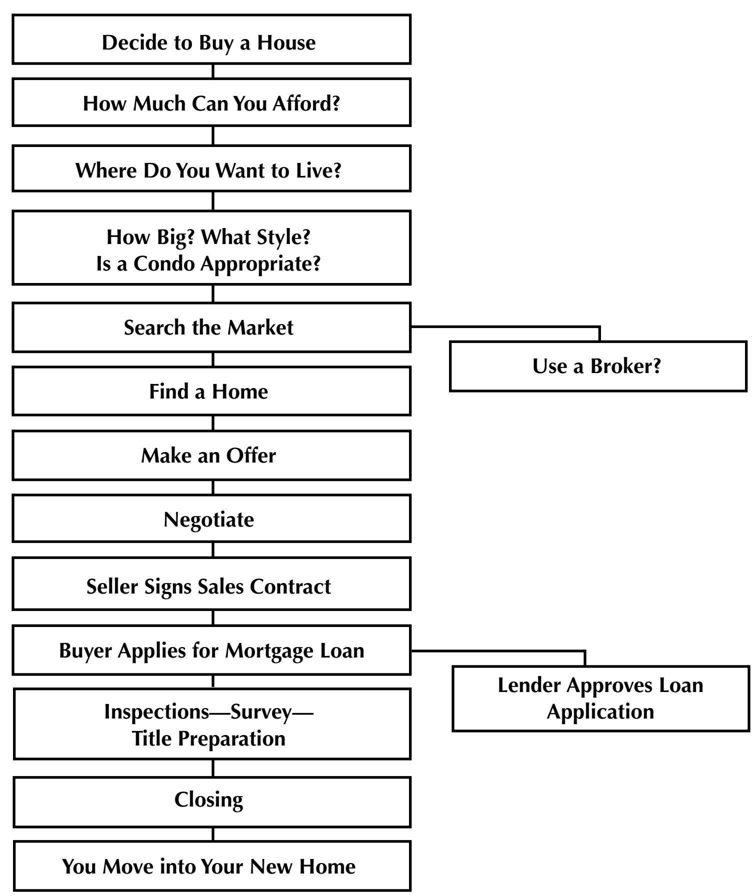
Many first-time buyers — and some repeat buyers — are somewhat bewildered by the home-buying procedure. The steps that generally are followed from initial search to a closed deal are presented in Figure 1. This guide explains the details of each step. First, however, let's briefly review what to expect.

Before you begin looking at homes, it's a good idea to figure out how much house you can afford. This allows you to focus on those homes that you can realistically buy. Also, it enables you to compare the costs of owning a different home to your current living costs. You even may be able to "prequalify" for a mortgage loan at this time, which will not only help focus your search but also may give you the confidence you need to make an offer on the home you like.

Location. Start your search by finding the area and neighborhood you like. Consider how close these are to your job, shopping, schools, churches, and other life centers. Will routine trips to these places be relatively easy and convenient or long and tiresome? Take time to find out about the services provided nearby. If you have children, you will be interested in how good the schools are and if they are conveniently located. See if homes in the area are well maintained. Is the neighborhood clean and relatively crime free? You might visit the area at various times to observe possible activities that might bother you if you lived there.

Location is a vital ingredient in the value of a home. That's why even a small home in a high-priced neighborhood often sells for more than a spacious home in a more modest area. Furthermore, while you can improve deficiencies in the house, you can do little about the neighborhood. Generally, property values increase at a greater rate in good neighborhoods than in lesser ones. Therefore, location is an important part of the investment decision as well as the choice of amenities.

Figure 1. Homebuying Process



Style. In most areas, you can choose from a variety of home types. Decide how big a home you desire. In today's market, the typical Texas home has about 1,700 square feet of living space. Larger homes provide extra rooms, more storage space and room to expand. Smaller homes may have undersized rooms and limited storage and lack formal dining rooms and living rooms. Smaller homes are easier to clean, less expensive to heat and cool, and incur lower property tax assessments and hazard insurance premiums.

Do you like the style and roominess of two-story homes or the convenience of single-story houses? You may appreciate the economy of a condominium or townhouse, or you may value the privacy of a detached home. What features do you desire in the home? Remember that many of these features can be added after you buy, although it is often more economical to find a place that already has what you want. This is particularly true if the feature requires major modification, such as an additional room or in-ground swimming pool.

Build? You might consider buying a lot and building a home. In this way, you can have exactly what you want, as long as you can afford it. You will have to find a competent builder and make a great number of decisions on the style, size and features of your home. You will also have to wait for the home to be completed, perhaps as long as six months, after you have committed money to buy a lot and arrange a construction loan.

Using a Real Estate Broker

As you set out to look at homes on the market and begin to make inquiries, you will undoubtedly encounter real estate brokers representing the owners of these homes. These brokers are happy to work with you to find a home that suits your needs. Real estate brokers offer several advantages. They can:

- check housing inventory on the Multiple Listing Service (MLS) and show you any home that you want to inspect;
- counsel you on finding the right type of home that you can afford;
- provide current information on neighborhoods, schools and local taxes;
- accompany you on visits to homes that interest you;
- help you prepare an offer on the proper legal contract forms;
- expedite the negotiation process;
- provide guidance in the sources and costs of financing; and
- help you prepare for closing.

Although the broker typically represents the seller, he or she is pleased to provide a substantial number of services to the buyer. They realize that these services contribute to a successful sale and that is in the interest of the seller. However, the broker is not allowed to disclose information that is detrimental to the seller's negotiating position.

Some agents act as **buyers' brokers**, representing the buyer rather than the seller. Buyers' brokers may receive a commission paid by the seller or collect a fee from the buyer, or both, but the broker must explicitly acknowledge whose interest he or she is representing. A buyer's broker offers additional services. These brokers can:

- show homes not on the MLS, such as those for sale by owners;
- counsel you on how much to offer for the home of your choice; and
- negotiate a sales contract on your behalf.

If you want these additional services, ask brokers if they represent buyers and if they charge for the service. In general, you will be asked to sign a contract to secure the services of a buyer's agent. The contract allows the broker to earn a commission when you buy a home with the broker's assistance. In most cases, the seller pays this commission even though the broker is representing you. Check the language of the contract for any situations that may call for you to pay a commission. In general, signing a buyer's representation contract means you agree to work with that broker through the duration of the contract.

Whether or not you choose to work with a broker, it is a good idea to understand the process in some detail. The broker can help you at each stage, but knowledge on your part allows you to get the most from these professional services.

Negotiation. After finding the home you want, you are ready to make an offer and negotiate a sale. Some sellers market their own homes, and you deal directly with them. Most sellers contract with a sales agent, and you negotiate through the agent. In either case, you need to fill out an **earnest money contract** stating the price you offer and conditions attached to the sale. Your offer is accompanied by a deposit — called **earnest money** — to show your commitment to an eventual sale. If your offer is accepted, the deposit goes toward the sales price. If you back out of the deal, you forfeit the deposit unless the reason for failing to complete the transaction is covered in the contract.

The seller may accept your offer or propose a counteroffer. This process may go back and forth several times before a sale is agreed upon by both parties. When everyone is satisfied, a closing date is set; all moneys are exchanged and you receive a deed to the home at the closing.

Between the time of the contract offer signing and closing, a number of things must occur. The buyer arranges financing from a lender, who issues a commitment for the loan at specified terms. The buyer may arrange for inspections of the property to determine its condition. The lender will have the home appraised and surveyed and ask a title company to issue commitment for title insurance. The seller must arrange to have the title cleared on any existing liens and satisfy any requirements in the sales contract involving the condition of the home.

Financing. Almost as important as choosing a home is arranging the proper financing. While it's possible to pay cash for a home, most people must borrow to make a purchase. Fortunately, many lenders are willing to help you buy a home.

Savings and loan associations specialize in home financing. Commercial banks and credit unions also make home loans, although their main business is short-term loans, such as car loans. Mortgage companies are important sources of home loans. Mortgage brokers can access financing offered by a range of lenders and may be able to put together a package of loans if more than one loan is needed. Some real estate brokers can originate mortgage loans in the brokerage office either through their own agents or an affiliated mortgage provider. As offered rates and terms can vary, you should consider all these sources and choose the best deal available.

Home loans can take two general forms. One type requires payments that are equal for as long as you have the loan. These are called fixed-rate loans. Another type allows the lender to adjust the interest rate at periodic intervals. These adjustable-rate loans may cause the monthly payment to go up or down, depending on how interest rates in the market change. Most adjustable loans have a safeguard to prevent the rate from changing too much from one interval to the next. Adjustable loans have lower interest rates than comparable fixed-rate loans because you are taking on some of the risk of interest rate variation.

Even with a loan, you need some cash to make the purchase. The typical loan requires that you pay 20 percent of the price in cash. In addition, you must pay a number of fees and other charges in cash at the time of purchase. There are ways, however, to reduce the need for so much cash. You may obtain an insured loan that covers a greater proportion of the cost.

Insurance is provided by the Federal Housing Administration (FHA), a government agency, and by private mortgage insurance companies. The FHA limits the size of loans they insure, so if the home is expensive, you may have to obtain private insurance. You may also get a second loan to handle part of the down payment. Remember that reducing the down payment means larger monthly loan payments, in part because more money is borrowed and the insurance fees become part of the payment.

When you have selected a lender, you file an application for a loan. This entails filling out a form, supplying information about the transaction and your financial situation , and paying a fee to cover the loan processing. If there are no problems, you will have an approved loan within three to four weeks and can proceed with the closing. (With modern advances in communications, the loan approval process is shrinking. Some loan originators now claim loan approvals within a few days.)

Closing the sale. At the closing meeting, all parties sign the proper papers and pay the required expenses and down payments. Lenders receive their fees and supply the purchase loan money. Title insurers, sales agents and inspectors receive their commissions and fees. The buyer takes possession of the home and can begin moving in. Under no circumstances should you modify the property until after closing.

The legal complexities of buying a home serve to protect your rights as a property owner. You can be assured that you are the rightful owner of the home and are free to use the property and sell your rights in the future.

How Much Can You Afford?

By far, the biggest hurdle in buying a home is arranging financing. This requires:

- an amount of cash for the down payment and other closing costs and
- enough income to qualify for the loan.

By comparing these requirements to the amount of cash and income on hand, you may determine how much house you can afford. Incidentally, if you don't wish to do this yourself, a real estate agent can guide you through the process.

Additionally, you may prequalify with a mortgage lender. A loan officer can estimate the maximum amount you may borrow based on your income, current debts and available cash. Typically, no charge or obligation is attached to prequalifying, and many lenders will take your information over the telephone.

If you think you may buy a home in the next several months, you may want to take the further step of getting preapproved for a mortgage loan. Preapproval signifies that you have a credit rating and verified income sufficient to get a loan of a specified amount. It not only indicates how much home you can afford but shows the seller that you have the ability to complete the sale. To get preapproved, you will have to provide the lender with documentation of income and assets and you may have to pay for a credit report. Later, when you apply for a loan at the same lender, the time required to get the loan approved should be much shorter.

Whether you do it yourself or have assistance, the first step is to put together an accounting of current income and debts. The lender will want to see these items when you apply for the loan. It's a good idea to do this before you look at homes, so you don't waste time with homes you can't afford.

Income. Your income will determine how much you can borrow and, therefore, how much house you can afford. Many things contribute to income, but you should include only those sources that produce a steady stream of income year after year. Your salary or earnings from a regular job, preferably one that you have held for some time, is the basis of the calculation.

If you are self-employed or derive most of your income from commissions, you need to verify that your level of income can be expected to continue. Likewise, the income of a second earner in the household should be based on expected continued employment. Investment income and payments from others, such as alimony or child-support, should be based on conservative judgment of their long-term continuation. To be on the safe side, you may want to consider these income sources as supplemental and base your estimate only on income from stable employment.

Current debts. After determining your income, make a list of your debts that require periodic payments. Include long-term installment debt with a remaining term of more than one year. Typically this includes car loans, furniture loans and loans for other major purchases. If you carry a balance on your credit cards, you should include the average monthly payment. Also include any other real estate mortgages you have, for example the one on the rental property you listed in the income section. Finally, if you pay alimony or child support, include these payments.

Lenders apply different ratios to your income alone and to your income minus debt obligations. You can use these ratios to figure the largest loan you can obtain. You should apply both ratios because you will need to qualify under both criteria.

Conventional Loans

The most common loan is the **conventional mortgage loan**. This is a loan with no government insurance or guarantee to cover the lender's risk that you may fail to keep up the payments. Most lenders apply the ratios for conventional loans that are required to sell the loan in the secondary market. The ratios are intended to measure how difficult it will be for the borrower to meet the obligation of monthly payments. Because loans with down payments less than 20 percent of cost are considered more risky, a lower ratio is applied to these loans.

These ratios are not treated as absolute limits by lenders. If there are other considerations that indicate the borrower can handle a higher debt burden, lenders can exceed these guidelines. Likewise, they are not necessarily an indication of the amount of loan you can afford. You should evaluate how well you can afford a loan by how well the payments fit into your budget. Nevertheless, the guidelines are helpful in calculating the price range of homes you can consider.

Currently the Federal National Mortgage Association (Fannie Mae), a major investor in home mortgages, requires that total mortgage payments plus insurance and taxes be no more than 28 percent of monthly income on loans with at least a 20 percent down payment.

Lower down payments require monthly payments to be no more than 25 percent of income. In addition, because many people have debt obligations beyond the mortgage, a second set of ratios is applied to cover total debt payments. For conventional loans, total recurring debt payments can be no more than 36 percent of monthly income (33 for low down payment loans) for an acceptable loan.

To estimate the size loan your income can support, both sets of ratios are applied to calculate the maximum monthly payment you can afford. The lower of the two results is used to calculate the amount of money you may borrow. By adding the down payment to this amount, you obtain an estimate of the most expensive home you can afford.

An example shows how these ratios can be used to estimate the maximum affordable loan. Mr. and Mrs. Brown receive $4,000 per month salary before income tax plus an average of $200 per month from a bond. Their total monthly income is $4,200. They have sufficient cash to make a 20 percent down payment. Applying the conventional 28 percent ratio to their income, their mortgage payment may be no more than $1,176. If property taxes and insurance payments for the home are $300 per month, they may afford a monthly payment for principal and interest of $876. They find that a mortgage loan can be obtained at 6.5 percent interest. They look at a mortgage payment table and find that the largest loan they could afford is for $138,586.

The Browns also pay an average of $250 per month on their credit cards and pay $250 per month on a car loan. Using the conventional total debt ratio of 36 percent, they may use $1,512 for all debt payments. Taking out the $500 they spend on current debts leaves $1,012 a month for mortgage expenses. After deducting the $300 estimated for taxes and insurance, the remainder for principal and interest is $712.

This payment would support a loan of $112,640 at 6.5 percent interest. With a 20 percent down payment, they could afford a home priced at $140,800. Such a purchase would require a down payment of $28,160 plus closing costs of approximately $1,500, depending on the terms of the mortgage loan.

When cash is short. Note that, in the example, the Browns could afford the standard 20 percent down payment. Had they been short on cash, they could have applied for a larger loan by purchasing mortgage insurance. The insurance protects the lender if the borrower stops making payments and the loan has to be foreclosed. When this protection is provided, lenders are willing to lend more of the cost of the home.

Insurance is available from private companies and the federal government. When private mortgage insurance (PMI) is used, the qualifying process is similar to the one described in the example, except the lower ratios (25 and 33 percent) are used. When the insurance is provided by the government (through the FHA 203(b) program), a different set of ratios is applied.

How Much Can You Afford With a Conventional Loan?

Using the mortgage payment to income ratio:

Monthly income:	
Salary (pretax):	$4,000
Investment income:	+ 200
Total:	$4,200
	x .28
Maximum payment:	$1,176
Tax and insurance:	- 300
Maximum principal and interest payment	$876
Maximum loan @ 6.5% $138,586*	

*To determine the maximum size of the loan, use the financial table included in this booklet on page 15. Look for the row next to the appropriate loan interest rate. In this example, it is 6.50. Find the number in the column under the term of the loan. Here it is 30 years. The number in the table is the monthly payment for a $1,000 loan. For the example, $6.321 a month is required for a $1,000 loan. Divide this payment into the maximum payment: 876 divided by 6.321 equals 138.586. Multiply the result by 1,000 to figure the loan amount, $138,586.

Using the total debt to income ratio:

Monthly income:	$4,200
	x .36
Income to make all debt payments:	$1,512
Minus average credit card payment	- 250
Minus installment loan payments	- 250
Minus existing mortgage payments	- 0
Income for mortgage payments	$1,012
Minus tax and insurance	- 300
Maximum principal and interest payment	$712
Maximum loan amount	$112,640
Maximum house price with 80% loan	$140,800

Federal Housing Administration Loans

Like conventional loans, FHA loans use two ratios: one for the mortgage payment alone (29 percent of qualifying income) and one for total debt (41 percent). For the Browns of the previous example, their $4,200 in monthly income is multiplied by 29 percent to obtain their maximum monthly payment of $1,218. This indicates their maximum loan, at 6.5 percent interest, is $145,230. Their maximum payment for all recurring debts is $4,200 times 41 percent, or $1,722. Based on total debt payments, their maximum loan is $145,863. The smaller of the two loan amounts, $145,230, is the largest loan for which they may qualify. If the Browns make a 10 percent down payment, they could buy a home priced up to $161,367 with a FHA loan.

The FHA sets an absolute dollar limit on the amount of loan they will insure, although the limit varies for different local markets, so check with a lender or the local FHA office to find the limit for your area. Also, you can find the limit for your area at the following web page: http://entp.hud.gov/idapp/html/hicostlook.cfm.

Cash requirements. How do you know if you will need an insured loan? That depends on your cash reserves plus other sources of cash. You may have securities or other valuables you can sell to raise cash. Often, first-time buyers have relatives who are willing to help out with the down payment. Before you can estimate how much house you can afford, you must figure out how much cash you can devote to the purchase. Your broker can prepare a **good faith estimate** of the cash you will need to complete the purchase based on typical fees and charges applied in your area.

How Much Can You Afford With an FHA Loan?

Income to housing expenses ratio:	
Monthly income:	$ 4,000
	x .29
Maximum monthly payment:	$ 1,218
Minus tax and insurance:	– 300
Maximum principal and interest payment:	$ 918
Maximum loan amount @ 6.5% for 30 years:	$145,230
Income to total obligation ratio:	
After-tax income	$ 4,200
	x .41
Maximum income for all obligations:	$ 1,722
Minus existing debt payments:	– 500
Maximum housing expenses:	$ 1,222
Minus tax and insurance:	$ – 300
Maximum principal and interest payment:	$ 922
Maximum loan @6.5% for 30 years:	$145,863
Maximum house price with 90% loan	$161,367*

*Based on loan of $145,230, the smaller of the two qualifying amounts.

Here's a representative list of the things you might expect to pay for at closing in addition to the down payment:

- **Origination fee and points on the loan** — these charges vary considerably depending on the terms of the financing you receive.
- **Mortgage insurance premium** — currently, the FHA requires an up-front premium of 1.5 percent of the loan amount. It is possible to get PMI with no up-front premium, but the lender may require prepayment of a year or more of monthly premium payments at closing.
- **Prepaid interest on loan** — this charge is for interest on the mortgage loan from the day of closing to the end of the month. The amount depends on the loan's interest rate and the closing date.
- **Attorney's fees** — you may have an attorney review all documents on your behalf. Even if you do not use

Mortgage Payment Table

Monthly Principal and Interest Payment per $1,000 of Loan Amount

Interest Rate (%)	Loan Term in Years: 15	25	30
4.00	7.397	5.278	4.774
4.25	7.523	5.417	4.919
4.50	7.650	5.558	5.067
4.75	7.778	5.701	5.216
5.00	7.908	5.846	5.368
5.25	8.039	5.992	5.522
5.50	8.171	6.141	5.678
5.75	8.304	6.291	5.836
6.00	8.439	6.443	5.996
6.25	8.574	6.597	6.157
6.50	8.711	6.752	6.321
6.75	8.849	6.909	6.486
7.00	8.988	7.068	6.653
7.25	9.129	7.228	6.822
7.50	9.270	7.390	6.992
7.75	9.413	7.553	7.164
8.00	9.557	7.718	7.338
8.25	9.701	7.885	7.513
8.50	9.847	8.052	7.689
8.75	9.994	8.221	7.867
9.00	10.143	8.392	8.046
9.25	10.292	8.564	8.227
9.50	10.442	8.737	8.409
9.75	10.594	8.911	8.592
10.00	10.746	9.087	8.776
10.25	10.900	9.264	8.961
10.50	11.054	9.442	9.147
10.75	11.209	9.621	9.335
11.00	11.366	9.801	9.523
11.25	11.523	9.982	9.713
11.50	11.682	10.165	9.903
11.75	11.841	10.348	10.094
12.00	12.002	10.532	10.286

an attorney, the title company's attorney will charge to prepare the closing documentation.

- **Hazard insurance premium** — the lender will require the home to be covered by insurance against damage. The first year's premium is due at closing.
- **Title insurance premium** — the lender also requires insurance against legal claims to the title of the property. For a small additional fee, buyers can also purchase title insurance for their interest.
- **Home inspection** — if you choose or are required by the lender to have an inspector check the property.
- **Survey** — another lender requirement. Most properties are surveyed when ownership changes hands. The survey assures that the property is as described in the deed and that nothing is encroaching on the property boundaries that might have occurred during the previous ownership.
- **Various fees and charges** — a number of services are provided by the title company to legally document the transfer of ownership and to pay any required taxes. The lender may charge various fees associated with loan document processing. All of these become due at closing.

Evaluating Homes on the Market

At any one time, a large number of homes probably are offered for sale in your community. Most of these homes will be represented by a professional real estate broker. If you contact one or more brokers, you will be shown listings of these homes and can arrange to see them in person. If you are interested in new homes, local builders may offer tours of whole subdivisions. In addition, individual sellers will advertise their homes in the classified ad section of the local newspaper.

The problem is sorting out all the homes on the market to find the one that suits your purposes for the most affordable price. Presumably, you have decided on the area where you want to locate and the type of home you desire. You also have an idea of the highest price you can afford to pay. You may want to think of some second preferences for location and house type in case you are unable to find the ideal at an affordable price. When working with a broker, be specific about what you are looking for. The broker generally knows what is on the market and can help focus your search.

First pick a group of homes that come close to fitting your choices of location, type and price range. Arrange to visit the homes in person. If you are like most people, you will probably want to change any home you buy. Unless the home is an exceptional bargain, however, you want to keep those changes to a minimum.

When you inspect the home, first look for things that would need to be repaired before the home meets your standards. For most things that are obviously broken or not in working order, you can request that the seller fix them as a condition of the sale.

Next, consider changes needed to make the home more attractive and appropriate to your lifestyle. Do you plan to entertain and need an attractive backyard or formal dining room? Maybe you require a large family room or a place to set up a shop for hobbies and crafts.

Such changes fall into three categories. First are the easy-to-change items, such as the color of the walls and minor landscaping. These are expected with any new home purchase. Next are the feasible but expensive changes, such as adding an outdoor deck or replacing a roof. If these are needed, they might eliminate that home from consideration unless no other home on the market satisfies your need or the home is priced low enough to justify the added expense of changes.

The last category is changes that are not feasible. These might include room arrangement that is awkward or would not suit your family's routine, chronic drainage problems, structural damage or a lot that is too small. In almost all cases, these problems would rule out purchase of the home.

When you set your standards high, you may eliminate all available or affordable homes from consideration. Then you must reconsider. Maybe you are better off waiting until the ideal home comes on the market. This might be feasible if you have seen such homes in town, yet not for sale currently. Alternatively, you might decide to compromise and pick second best. This requires that you select those things that you must have versus those things that are merely desirable. Then review the market once again in light of your revised standards.

Some people like to work on their homes. Young couples may seek out older homes in relatively poor condition but with much potential to fix up. This can be a strategy for saving money on the home. It is possible to buy a modest home and turn it into a showplace with investment of time and money. The trick is to pay a low enough price to make the investment worthwhile and to avoid overimproving the home. Keep in mind that renovation often costs more and takes longer to complete than it appears at first.

No matter how impressive a particular home's appearance and features, its value will not differ too much from the average for the neighborhood. Therefore, your most profitable improvements will be those that bring the home up to neighborhood standards. Some features you might enjoy may not improve value. If you plan to stay in the home a long time, you still may want these changes. Major improvements not in keeping with the area mean that you should choose another home.

Some sellers, particularly when mortgage interest rates are high and markets are soft, are willing to help finance the purchase of the home. Others are willing to pay discount points and other closing costs on a buyer's behalf. Consider these concessions as part of the price. They equal a reduced price. Sometimes concessions are more effective than a lower price because they help qualify the buyer who otherwise could not afford the home. If this is your case, consider the amount of time covered by the concession. Seller financing is often short-term — three to five years. When the time runs out, the buyer must get a loan at the market rate of interest. What happens if interest rates in the near future are high? Seller concessions of short duration should not be the main reason for buying a particular home.

Making an Offer

Once you find a home that fits your needs, it is time to begin negotiating a purchase. Unlike most of your purchases, buying a house offers you meaningful negotiating power. Few sellers expect to receive the price they are asking for a home. Finding a mutually satisfactory price and sales terms requires some give and take from both buyer and seller.

First of all, **consider the state of the market**. Under normal circumstances, housing markets are busiest in late summer and early fall. Winter is usually the slowest time for sales. Likewise, prices tend to be higher during busy periods and lower in slow markets. In a similar fashion, some years are more active than others.

The market generally swings between **sellers' markets** and **buyers' markets**. If you are buying in a relatively active sellers' market, expect to pay close to the asking price. In slow, buyers' markets, you may find more willingness to bargain. Unless you have contracted with a buyer's broker**, do not expect the agent showing the home to divulge information about the seller's situation.** He or she may be aware of the seller's willingness to compromise on price but is bound by the agent-client relationship not to share such information with prospective buyers.

Second, consider any advantages you may have in negotiating. If you have preapproved financing, if you have enough cash to make the standard 20 percent down payment or if you can complete the sale without having to sell another property, you may have a competitive advantage over other buyers. Most sellers prefer to deal with buyers who do not present complications that might delay the sale. That advantage may be used to drive a better bargain.

When you make a serious offer, you fill out an earnest money contract, or contract for sale. If the seller is represented by a broker, a sales agent helps you complete the contract. In the contract, you state the price you want to pay, the conditions of the sale and the target date for closing the sale. To indicate your intent to buy the house, send a cash deposit with the contract (usually about 1 to 5 percent of the price of the home). If the sale goes through, this deposit is credited toward the purchase. If the offer is refused, your deposit is refunded. If your offer is accepted and you fail to live up to the contract, you may forfeit the deposit. (See sales contract on page 17.)

You may have reasons why you cannot follow through with the contract. You may not receive the necessary financing. You may be unable to sell your current home to obtain the down payment. You may discover some defect in the home, such as a termite infestation. These and other conditions can be included in the contract. If accepted by the seller, these stated conditions allow you to withdraw your offer without forfeiting the deposit. If you have any reservations about the sale, put them in the contract. Once the closing is held, you cannot reverse the transaction, except in the case of provable deception on the part of the seller.

The seller may accept or reject your offer. If the offer is rejected, the seller may make a counteroffer. Often this is done by amending the contract offer that you filled out. If the seller's offer is acceptable, you may initial the changes and resubmit the contract. On the other hand, you may wish to make another offer with a new contract. If your first offer is rejected or countered, and you wish to end negotiations, you may recover your deposit. The process sounds complicated but actually can occur rather quickly, particularly when an agent is involved. Negotiation past the initial contract often is conducted over the telephone or by FAX.

When negotiations are complete and a final sales contract is signed, buyer and seller begin to fulfill their obligations under the contract. For you, the buyer, this means arranging the financing. In today's mortgage market, the choice of financing can be as important and time-consuming as selecting the right home.

Obtaining a Loan

Financing is an important part of the homebuying process. In many cases, the right loan can make a difference in whether you can afford to buy or not. Some loans require large cash down payments, while others call for relatively modest outlays. Some need larger monthly payments than others. With some loans, the monthly payments vary over time. Find the least expensive financing that fits your financial situation and provides adequate security.

The next section is a guide to shopping for a home loan. It covers the sources for loans, the types of loans available, how to decide among them and what happens after you apply for a loan.

Loan Sources

The first step in getting a loan is to find out what's available in the market. It's a good idea to check on several sources before committing to a lender because the variation in interest rates, discount points and types of loans offered can be greater than expected. Most lenders quote rates and give other information over the phone, so time spent calling will provide a good idea of the current market. In some cities, current terms are printed periodically in the newspaper. Of course, a real estate agent can quote current mortgage rates as well.

Banks and thrifts (or S&Ls) are local institutions that take deposits from individual savers and use them to make loans. Traditionally, thrifts specialized in home mortgages, while banks featured short-term business and consumer loans. Today, however, either institution is a probable source for a mortgage, especially if you are interested in an adjustable interest rate loan.

Mortgage companies are prime sources for mortgage loans. Unlike thrifts and banks, mortgage companies do not collect deposits from savers. Mortgage bankers obtain funds by selling the loans they originate to investors, other lenders and the major secondary market agencies. Mortgage brokers locate lenders who offer loans of the type appropriate to the borrower. Most of the lenders who market loans through the Internet are mortgage brokers or mortgage bankers. The application and approval process is then conducted by the lender. Mortgage bankers may retain the servicing (collecting payments and administrating the loan) of the loan at least for a while. Mortgage brokers do not service loans. To the borrower, the difference between these two types of lenders is of little importance.

Others. Although their main business is short-term loans, credit unions have made home mortgages and are worth checking if you belong to one. Home finance companies rarely make first mortgage loans but may be a source for second mortgages to help finance the down payment.

At times, individuals make home loans. Most often, these individuals are sellers who are willing to help finance the sale. When interest rates are high, or loans from established lenders hard to find, sellers may offer to take back a note as part of the sales price. This financing is intended as a way to sell the house.

Seller financing differs in several important ways from a loan made by a third-party lender. The financing is tied to a particular home offered at a particular price (which may be higher than the price you would pay without the financing). The loan is usually short term with a balloon payment. That means you must refinance the loan after a few years. These loans are meant for special situations, but they may be useful in some circumstances.

Government agencies sometimes make loans. In general, these loans are highly restricted to certain income groups or other "target groups." Some state and local governments have money available from the sale of bonds to make home loans to first-time buyers. The loans are originated by established lenders, so inquire about these when you check out rates. Most areas have local housing counseling agencies that can help in the search for special loans and programs for first-time homebuyers. For a list of agencies approved by the U.S. Department of Housing and Urban Development, go to http://www.hud.gov/offices/hsg/sfh/hcc/states/texas.txt.

FHA and VA loans are made by established lenders using their own funds. The government backs up these loans if the borrower fails to make payments and the home is foreclosed. For FHA loans, the government provides insurance against default. The borrower pays a premium for this insurance.

Similar insurance is provided by private companies for conventional loans. VA loans are guaranteed by the government and are available as a benefit to qualified military veterans.

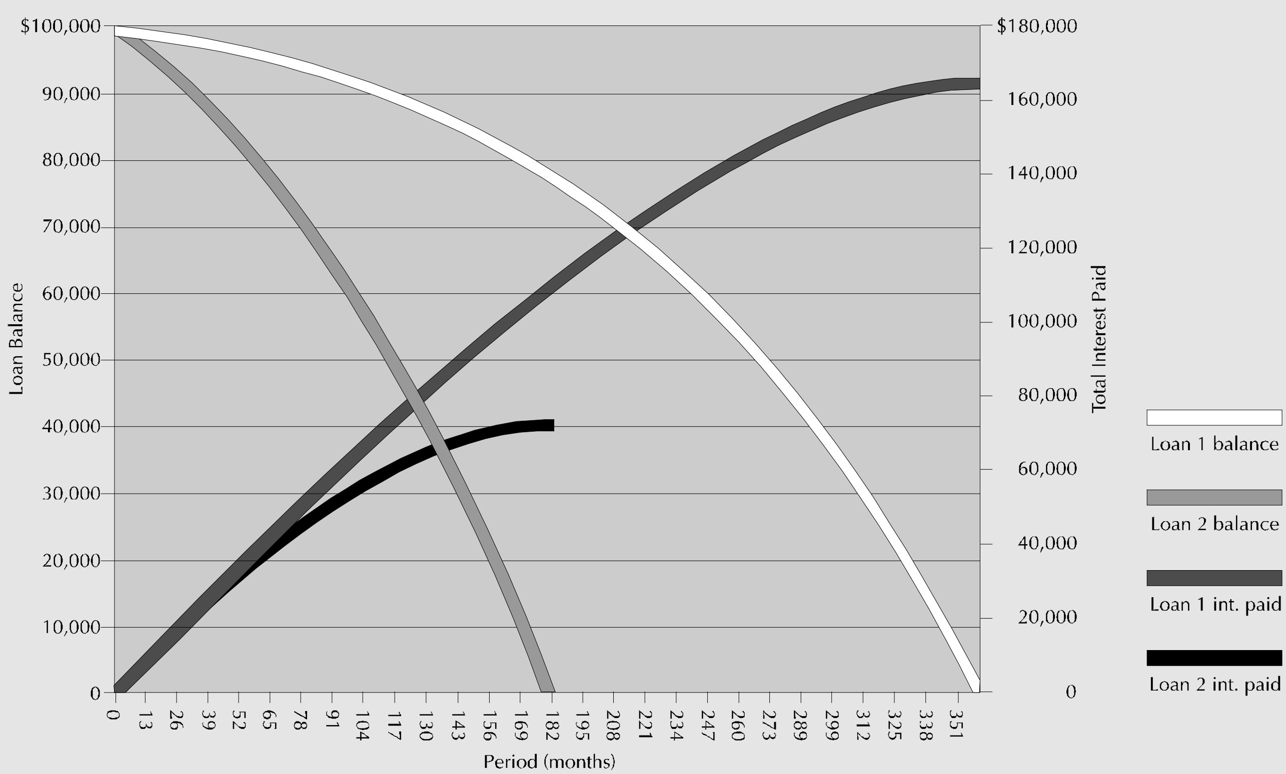
Loan Types

The most popular type of mortgage loan is a long-term (25 to 30 years), fixed-rate mortgage. However, other types are available, and one may be more suitable for you than others. This section explains how each type of loan differs.

Long-term, fixed rate mortgage. The standard loan covers 80 percent of a home's cost, or the appraised value, whichever is lower. The remainder of the cost is the cash down payment that you must provide at closing. Lenders also charge **discount points** as a condition of making the loan. Each point charged requires the buyer to pay an amount equal to 1 percent of the loan amount in cash at closing. An estimate of these expenses will be provided when you apply for the loan.

Lenders charge points to increase the profits from a loan. Therefore, you may find various combinations of interest rates and points available, with the lower interest rates combined with the higher number of points. When choosing a loan, consider that the more points charged, the more cash you need to

Figure 2. Mortgage Amortization



Source: Real Estate Center at Texas A&M University close, and the higher the interest rate, the more income you need to qualify.

Each monthly payment on a mortgage loan includes interest on the outstanding principal plus repayment of a part of the principal borrowed. In this way, the loan is completely paid off at the end of the mortgage term. If you pay the loan back before the end of the term, the amount of principal you owe is less than the amount you borrowed. The gradual reduction in principal is called **amortization.**

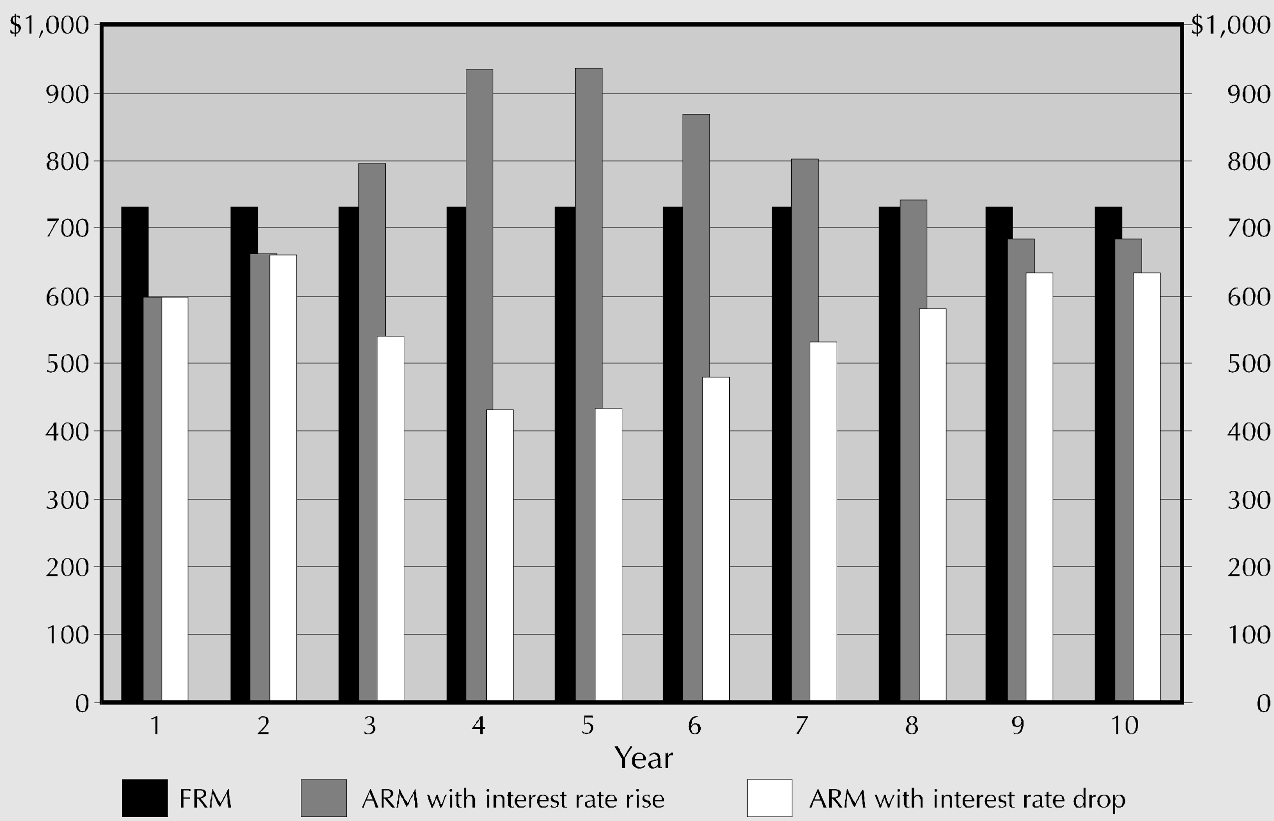
With a fixed-rate loan, each payment of principal and interest is equal during the life of the loan. Because you are gradually paying back the principal with each payment, the amount of payment devoted to interest decreases over time. This means the amount of principal paid back increases at the same time.

Each monthly payment also includes a payment to an **escrow account** used for hazard insurance premiums and property taxes. While the interest and principal remain unchanged, the total payment may increase each year because the escrow payment may vary.

If you can afford to make slightly higher payments, you might consider a loan with a relatively short term. Most mortgage loans have terms of 25 or 30 years. However, you can get a loan with a 15-year term that will amortize faster and save interest expense in the long-run. Figure 2 compares the loans. The lines on the chart show the principal balance of two $100,000 loans with an interest rate of 8 percent. One loan has a term of 30 years while the other's term is 15 years. Note that not only is the 15-year loan paid off in 15 years but amortizes much faster during the period. Also shown is the total amount of interest paid over time for each loan. Although the interest rate is the same, the 15-year loan requires total interest payments less than half of those for the 30-year loan. On the other hand, the monthly principal and interest payment for the shorter loan is $956, compared to only $734 for the 30-year loan.

It's possible to get mortgage loans for more than 80 percent of cost if the loan is insured. (This should not be confused with mortgage life insurance, which pays off the loan in the event of death or disability to the borrower). The FHA insures home loans for up to 98.75 percent of value (exact percentage depends on the home's value). The borrower must contribute an amount equal to at least 3 percent of value in cash, though this amount can be paid by someone else on the borrower's behalf. The dollar amount of the loan has limits, so FHA loans are appropriate for moderate-priced houses. You can find the FHA loan limit for your locality at http://www.fhatoday.com/mtg_limits.htm. Loans not insured by the FHA (or guaranteed by the Veterans Administration, a service available to qualified military veterans) are called *conventional loans*. These loans can be insured by Private Mortgage Insurance (PMI) companies. The amount of PMI conventional loans usually has no restrictions. Premiums for PMI may be paid in a variety of ways: one-time fee at closing, annual payments or monthly payments. The FHA charges a one-time fee at closing as well as a monthly fee.

Figure 3. Monthly Payments Compared



Source: Real Estate Center at Texas A&M University

Adjustable rate mortgages. Since 1980, adjustable rate mortgages (ARMs) have become an important part of the mortgage market. One reason is that lenders like the protection that ARMs give them from the effects of rising interest rates. Another reason is that ARMs usually start out with lower interest rates than comparable fixed-rate mortgages. Some homebuyers find they can afford more house with an ARM than they can with a higher interest rate loan.

The main difference between ARMs and fixed-rate loans is that the interest rate on the ARM may vary periodically. At preset intervals ranging from three months to five years, the lender can change the interest rate applicable to the loan. This is done by monitoring an index and maintaining a set relationship between the interest rate and the index.

The index may be the market yield on some government security, the average mortgage interest rate in the nation or the cost of the money used by lenders to make loans. In all cases, the index is publicly reported and is not affected by actions of the individual lender. When the interest rate on the loan changes, the monthly payment changes accordingly. This means the amount you pay on your loan for principal and interest may vary significantly over time.

One way borrowers are protected from large changes in payments is through preset limits, or caps, placed on the interest rate adjustment. Some loans have caps that apply to the periodic adjustment and a cap on the overall change in the interest rate over the life of the loan. Some loans also have limits on the amount of change in the payment but not on the interest rate. This type of cap can create negative amortization, a situation that increases the amount of principal owed over time.

Adjustable loans often have first-year interest rates substantially lower than those for fixed-rate loans. The reason lenders accept lower rates is that a portion of the risk of interest rate change is passed on to the borrower. If interest rates remain stable or do not rise appreciably, an ARM can be a good deal for the borrower. But if rates rise substantially, the borrower could be obligated to make larger payments than for a fixed-rate loan.

Interest rates are not predictable, but the lender can prepare a "worst case" projection for you. This allows you to see what happens to monthly payments if the interest rate is raised by the maximum allowable amount each year. This is not likely to happen, but whatever occurs would have no more serious consequences than the projection.

A more likely scenario is for a quick run-up or decline in interest rates that then stabilize at that level. See Figure 3. Monthly payments for a fixed-rate loan originated at 8 percent are compared with an ARM at a first-year rate of 6 percent. In the second year of the projection, the ARM index rises by 4 percentage points, in one case, and drops by the same amount in the other case. The ARM loans have a first-year index value of 7 percent and feature an annual cap of 2 percentage points and life-of-loan cap of 6 percentage points. Note how caps tend to soften the impact of a sudden rate hike, yet also delay the benefits of a decline.

Loan assumptions. In some cases, obtaining a new loan may not be necessary. Some sellers have existing mortgage loans that can be assumed by the buyer. When interest rates have risen, existing loans may have interest rates and payments much lower than those required with new loans. The buyer may be able to avoid many of the closing costs associated with new loans as well. Assumable conventional loans are becoming rare because lenders have begun to include **due on sale clauses** in the loans. These provisions entitle the lender to call the loan due if the house is sold. Loans insured by the FHA or guaranteed by the VA are generally assumable.

Assumable loans have several drawbacks. The seller may want a higher price because of the loan. The loan may cover a relatively small proportion of the home costs. In some cases, the latter problem has been overcome by the seller taking a second mortgage as part of the purchase price.

Loan Application

Once you have decided on the type of loan you want and have found the best source, it's time to apply. This requires you to provide certain information to the lender so that the loan's risk can be evaluated. If everything goes right, you will be issued a commitment from the lender for a loan of a stated amount and at a stated rate of interest. With the commitment, you can proceed to plan the closing for the purchase of the home.

When you apply for the loan, you should take the sales contract for the home, some information on your financial status and income and your checkbook. The loan officer will ask you to fill out forms and sign papers that allow them to check on your employment and bank accounts. Here's a list of information you may be asked to provide:

- copy of the signed sales contract;
- your Social Security number as well as the number of anyone cosigning the loan;
- information about your checking and savings accounts, such as location, balance and account numbers (to verify you have sufficient cash to make the down payment);
- information about existing debts, such as creditor name, balance and account numbers;
- list of your assets, such as stocks and bonds, real estate and the current value of insurance policies and retirement programs; and
- employment information. If you are an employee, know the employer's name and address, your salary and length of employment. If self-employed, bring several of your most recent tax returns to verify income. If you intend to use additional sources of income to qualify, bring verification of those sources.

You will pay a fee that covers the cost of obtaining a report on your credit status and preparing an appraisal of the home you wish to buy, as well as the costs of processing your application. The fee is generally several hundred dollars and is not refundable. At the time you fill out the application, the lender will give you the option of locking in the terms of the loan for a specified period of time.

The approval process normally takes from three to six weeks depending on the nature of the loan and the volume of applications. Therefore, if you are going to lock in an interest rate, you will want to do so long enough to include the closing date.

If you lock in a rate, you don't have to worry about changes in interest rates during the processing period. However, if rates fall, you must either go with the locked-in rate or abandon the process and start over, paying a new fee. By taking a chance and not locking in, you can take advantage of any rate decline without re-applying. For a fee, you may be able to lock in the rate and still get a lower rate at closing if market rates have fallen during the lock period.

During processing, the loan officer will verify some of the information you provide, such as your employment, salary and bank balances deemed important to the application. The lender is interested in the ratio of your steady income to the loan payment and other costs of maintaining the home. This ratio should be sufficiently high to show that you can make the monthly payments without undue stress on your personal budget (see "How Much Can You Afford?"). The lender also is interested in verifying that you have enough ready cash to make the down payment and cover other closing expenses.

The appraisal should show that the house provides sufficient collateral for the loan. If you fail to keep up payments on the loan, the lender may have to **foreclose**. The home would be sold to repay the loan. Therefore, regardless of what you paid for the home, the appraised value limits the amount the lender will lend. If the appraised value is more than your purchase price, no problems will arise. However, if the value is lower, the lender may have to reduce the size of the loan. This means you must raise more down payment money if you want to follow through on the purchase.

The information collected by the loan officer is then presented to the loan approval committee. If the information conforms to the lender's criteria for making loans, the loan is approved. If not, the loan may still be made if the committee feels that enough offsetting factors exist to overcome the deficiencies. After approval by the committee, the loan must be approved by FHA or a private mortgage insurance company if insurance is being used.

Technology is affecting the mortgage industry just as it has most other businesses. Two innovations of recent years may greatly speed up the approval process as well as make it more objective. **Automated underwriting** uses a computerized program to process the loan. The computer basically compares the loan application to criteria set by the lender and if everything conforms, the loan can be approved in a matter of hours, conditional on an sufficient appraised value.

Also, many lenders now rely on **credit scores,** sometimes referred to as "FICO" scores, to portray the risk that an applicant will default on the loan. These scores are based on an individual's use of credit in the past and do not reflect one's sex, race, marital status or religion. Use of credit scores has led lenders to extend credit to previously underserved segments of the population because lenders are more confident in detecting those individuals who are bad credit risks.

PROMULGATED BY THE TEXAS REAL ESTATE COMMISSION (TREC) 01-06-03

ONE TO FOUR FAMILY RESIDENTIAL CONTRACT (RESALE)

NOTICE: Not For Use For Condominium Transactions

1. PARTIES: ______________________________ (Seller) agrees to sell and convey to ______________________________ (Buyer) and Buyer agrees to buy from Seller the Property described below.

2. PROPERTY:

A. LAND: Lot ______________,Block____, ______________ ______________Addition, City of ____________, ____________ County, Texas, known as ______________________________ ______________(address/zip code), or as described on attached exhibit.

B. IMPROVEMENTS: The house, garage and all other fixtures and improvements attached to the above-described real property, including without limitation, the following permanently installed and built-in items, if any: all equipment and appliances, valances, screens, shutters, awnings, wall-to-wall carpeting, mirrors, ceiling fans, attic fans, mail boxes, television antennas and satellite dish system and equipment, heating and air-conditioning units, security and fire detection equipment, wiring, plumbing and lighting fixtures, chandeliers, water softener system, kitchen equipment, garage door openers, cleaning equipment, shrubbery, landscaping, outdoor cooking equipment, and all other property owned by Seller and attached to the above described real property.

C. ACCESSORIES: The following described related accessories, if any: window air conditioning units, stove, fireplace screens, curtains and rods, blinds, window shades, draperies and rods, controls for satellite dish system, controls for garage door openers, entry gate controls, door keys, mailbox keys, above ground pool, swimming pool equipment and maintenance accessories, and artificial fireplace logs.

D. EXCLUSIONS: The following improvements and accessories will be retained by Seller and excluded: ______________________________ ______________________________.

The land, improvements and accessories are collectively referred to as the "Property".

3. SALES PRICE:

A. Cash portion of Sales Price payable by Buyer at closing.................. $______________

B. Sum of all financing described below (excluding any loan funding fee or mortgage insurance premium) .... $______________

C. Sales Price (Sum of A and B) .... $______________

4. FINANCING: The portion of Sales Price not payable in cash will be paid as follows: (Check applicable boxes below)

❑ A. THIRD PARTY FINANCING: One or more third party mortgage loans in the total amount of $______________. If the Property does not satisfy the lenders' underwriting requirements for the loan(s), this contract will terminate and the earnest money will be refunded to Buyer. (Check one box only)

❑(1) This contract is subject to Buyer being approved for the financing described in the attached Third Party Financing Condition Addendum.

❑(2) This contract is not subject to Buyer being approved for financing and does not involve FHA or VA financing.

❑ B. ASSUMPTION: The assumption of the unpaid principal balance of one or more promissory notes described in the attached TREC Loan Assumption Addendum.

❑ C. SELLER FINANCING: A promissory note from Buyer to Seller of $______________, bearing ________ % interest per annum, secured by vendor's and deed of trust liens, and containing the terms and conditions described in the attached TREC Seller Financing Addendum. If an owner policy of title insurance is furnished, Buyer shall furnish Seller with a mortgagee policy of title insurance.

5. EARNEST MONEY: Upon execution of this contract by both parties, Buyer shall deposit $____________ as earnest money with ______________________________, as escrow agent, at ______________________________ (address). Buyer shall deposit additional earnest money of $______________ with escrow agent within ________days after the effective date of this contract. If Buyer fails to deposit the earnest money as required by this contract, Buyer will be in default.

Initialed for identification by Buyer______ ______ and Seller ______ ______

6. TITLE POLICY AND SURVEY:

A. TITLE POLICY: Seller shall furnish to Buyer at ❑Seller's ❑Buyer's expense an owner policy of title insurance (Title Policy) issued by ______________________________________ (Title Company) in the amount of the Sales Price, dated at or after closing, insuring Buyer against loss under the provisions of the Title Policy, subject to the promulgated exclusions (including existing building and zoning ordinances) and the following exceptions:

(1) Restrictive covenants common to the platted subdivision in which the Property is located.
(2) The standard printed exception for standby fees, taxes and assessments.
(3) Liens created as part of the financing described in Paragraph 4.
(4) Utility easements created by the dedication deed or plat of the subdivision in which the Property is located.
(5) Reservations or exceptions otherwise permitted by this contract or as may be approved by Buyer in writing.
(6) The standard printed exception as to marital rights.
(7) The standard printed exception as to waters, tidelands, beaches, streams, and related matters.
(8) The standard printed exception as to discrepancies, conflicts, shortages in area or boundary lines, encroachments or protrusions, or overlapping improvements. Buyer, at Buyer's expense, may have the exception amended to read, "shortages in area".

B. COMMITMENT: Within 20 days after the Title Company receives a copy of this contract, Seller shall furnish to Buyer a commitment for title insurance (Commitment) and, at Buyer's expense, legible copies of restrictive covenants and documents evidencing exceptions in the Commitment (Exception Documents) other than the standard printed exceptions. Seller authorizes the Title Company to mail or hand deliver the Commitment and Exception Documents to Buyer at Buyer's address shown in Paragraph 21. If the Commitment and Exception Documents are not delivered to Buyer within the specified time, the time for delivery will be automatically extended up to 15 days or the Closing Date, whichever is earlier.

C. SURVEY: The survey must be made by a registered professional land surveyor acceptable to the Title Company and any lender. (Check one box only)

❑ (1) Within ______ days after the effective date of this contract, Seller, at Seller's expense, shall furnish a new survey to Buyer.

❑ (2) Within ______ days after the effective date of this contract, Buyer, at Buyer's expense, shall obtain a new survey.

❑ (3) Within ______ days after the effective date of this contract, Seller shall furnish Seller's existing survey of the Property to Buyer and the Title Company, along with Seller's affidavit acceptable to the Title Company for approval of the survey. If the survey is not approved by the Title Company or Buyer's lender, a new survey will be obtained at ❑ Seller's ❑ Buyer's expense no later than 3 days prior to the Closing Date.

D. OBJECTIONS: Within ____ days after Buyer receives the Commitment, Exception Documents and the survey, Buyer may object in writing to defects, exceptions, or encumbrances to title: disclosed on the survey other than items 6A(1) through (7) above; disclosed in the Commitment other than items 6A(1) through (8) above; or which prohibit the following use or activity: ____.
Buyer's failure to object within the time allowed will constitute a waiver of Buyer's right to object; except that the requirements in Schedule C of the Commitment are not waived. Seller shall cure the timely objections of Buyer or any third party lender within 15 days after Seller receives the objections and the Closing Date will be extended as necessary. If objections are not cured within such 15 day period, this contract will terminate and the earnest money will be refunded to Buyer unless Buyer waives the objections.

E. TITLE NOTICES:

(1) ABSTRACT OR TITLE POLICY: Broker advises Buyer to have an abstract of title covering the Property examined by an attorney of Buyer's selection, or Buyer should be furnished with or obtain a Title Policy. If a Title Policy is furnished, the Commitment should be promptly reviewed by an attorney of Buyer's choice due to the time limitations on Buyer's right to object.

(2) MANDATORY OWNERS' ASSOCIATION MEMBERSHIP: The Property ❑ is ❑ is not subject to mandatory membership in an owners' association. If the Property is subject to mandatory membership in an owners' association, Seller notifies Buyer under §5.012, Texas Property Code, that, as a purchaser of property in the residential community in

which the Property is located, you are obligated to be a member of the owners' association. Restrictive covenants governing the use and occupancy of the Property and a dedicatory instrument governing the establishment, maintenance, and operation of this residential community have been or will be recorded in the Real Property Records of the county in which the Property is located. Copies of the restrictive covenants and dedicatory instrument may be obtained from the county clerk. You are obligated to pay assessments to the owners' association. The amount of the assessments is subject to change. Your failure to pay the assessments could result in a lien on and the foreclosure of the Property.

(3) STATUTORY TAX DISTRICTS: If the Property is situated in a utility or other statutorily created district providing water, sewer, drainage, or flood control facilities and services, Chapter 49, Texas Water Code requires Seller to deliver and Buyer to sign the statutory notice relating to the tax rate, bonded indebtedness, or standby fee of the district prior to final execution of this contract.

(4) TIDE WATERS: If the Property abuts the tidally influenced waters of the state, §33.135, Texas Natural Resources Code, requires a notice regarding coastal area property to be included in the contract. An addendum containing the notice promulgated by TREC or required by the parties must be used.

(5) ANNEXATION: If the Property is located outside the limits of a municipality, Seller notifies Buyer under §5.011, Texas Property Code, that the Property may now or later be included in the extraterritorial jurisdiction of a municipality and may now or later be subject to annexation by the municipality. Each municipality maintains a map that depicts its boundaries and extraterritorial jurisdiction. To determine if the Property is located within a municipality's extraterritorial jurisdiction or is likely to be located within a municipality's extraterritorial jurisdiction, contact all municipalities located in the general proximity of the Property for further information.

7. PROPERTY CONDITION:

A. INSPECTIONS, ACCESS AND UTILITIES: Buyer may have the Property inspected by inspectors selected by Buyer and licensed by TREC or otherwise permitted by law to make inspections. Seller shall permit Buyer and Buyer's agents access to the Property at reasonable times. Seller shall pay for turning on existing utilities for inspections.

B. SELLER'S DISCLOSURE NOTICE PURSUANT TO §5.008, TEXAS PROPERTY CODE (Notice): (Check one box only)

☐ (1) Buyer has received the Notice.

☐ (2) Buyer has not received the Notice. Within _______ days after the effective date of this contract, Seller shall deliver the Notice to Buyer. If Buyer does not receive the Notice, Buyer may terminate this contract at any time prior to the closing and the earnest money will be refunded to Buyer. If Seller delivers the Notice, Buyer may terminate this contract for any reason within 7 days after Buyer receives the Notice or prior to the closing, whichever first occurs, and the earnest money will be refunded to Buyer.

☐ (3) The Texas Property Code does not require this Seller to furnish the Notice.

C. SELLER'S DISCLOSURE OF LEAD-BASED PAINT AND LEAD-BASED PAINT HAZARDS is required by Federal law for a residential dwelling constructed prior to 1978.

D. ACCEPTANCE OF PROPERTY CONDITION: Buyer accepts the Property in its present condition; provided Seller, at Seller's expense, shall complete the following specific repairs and treatments:____
____.

E. LENDER REQUIRED REPAIRS AND TREATMENTS: Unless otherwise agreed in writing, neither party is obligated to pay for lender required repairs, which includes treatment for wood destroying insects. If the parties do not agree to pay for the lender required repairs or treatments, this contract will terminate and the earnest money will be refunded to Buyer. If the cost of lender required repairs and treatments exceeds 5% of the Sales Price, Buyer may terminate this contract and the earnest money will be refunded to Buyer.

F. COMPLETION OF REPAIRS AND TREATMENTS: Unless otherwise agreed in writing, Seller shall complete all agreed repairs and treatments prior to the Closing Date. All required permits must be obtained, and repairs and treatments must be performed by persons who are licensed or otherwise authorized by law to provide such repairs or treatments. At Buyer's election, any transferable warranties received by Seller with respect to the repairs and treatments will be transferred to Buyer at Buyer's expense. If Seller fails to complete any agreed repairs and treatments prior to the Closing Date, Buyer may do so and receive reimbursement from Seller at closing. The Closing Date will be extended up to 15 days, if necessary, to complete repairs and treatments.

G. ENVIRONMENTAL MATTERS: Buyer is advised that the presence of wetlands, toxic substances, including asbestos and wastes or other environmental hazards, or the presence of a threatened or endangered species or its habitat may affect Buyer's intended use of the Property. If Buyer is concerned about these matters, an addendum promulgated by TREC or required by the parties should be used.

H. RESIDENTIAL SERVICE CONTRACTS: Buyer may purchase a residential service contract from a residential service company licensed by TREC. If Buyer purchases a residential service contract, Seller shall reimburse Buyer at closing for the cost of the residential service contract in an amount not exceeding $_______________ . Buyer should review any residential service contract for the scope of coverage, exclusions and limitations. **The purchase of a residential service contract is optional. Similar coverage may be purchased from various companies authorized to do business in Texas.**

8. **BROKERS' FEES:** All obligations of the parties for payment of brokers' fees are contained in separate written agreements.

9. **CLOSING:**

A. The closing of the sale will be on or before _____________________, 20___, or within 7 days after objections to matters disclosed in the Commitment or by the survey have been cured, whichever date is later (Closing Date). If either party fails to close the sale by the Closing Date, the non-defaulting party may exercise the remedies contained in Paragraph 15.

B. At closing:

(1) Seller shall execute and deliver a general warranty deed conveying title to the Property to Buyer and showing no additional exceptions to those permitted in Paragraph 6 and furnish tax statements or certificates showing no delinquent taxes on the Property.

(2) Buyer shall pay the Sales Price in good funds acceptable to the escrow agent.

(3) Seller and Buyer shall execute and deliver any notices, statements, certificates, affidavits, releases, loan documents and other documents required of them by this contract, the Commitment or law necessary for the closing of the sale and the issuance of the Title Policy.

C. Unless expressly prohibited by written agreement, Seller may continue to show the Property and receive, negotiate and accept back up offers.

D. All covenants, representations and warranties in this contract survive closing.

10. **POSSESSION:** Seller shall deliver to Buyer possession of the Property in its present or required condition, ordinary wear and tear excepted: ☐ upon closing and funding ☐ according to a temporary residential lease form promulgated by TREC or other written lease required by the parties. Any possession by Buyer prior to closing or by Seller after closing which is not authorized by a written lease will establish a tenancy at sufferance relationship between the parties. *Consult your insurance agent prior to change of ownership or possession because insurance coverage may be limited or terminated. The absence of a written lease or appropriate insurance coverage may expose the parties to economic loss.*

11. **SPECIAL PROVISIONS:** (Insert only factual statements and business details applicable to the sale. TREC rules prohibit licensees from adding factual statements or business details for which a contract addendum, lease or other form has been promulgated by TREC for mandatory use.)

12. SETTLEMENT AND OTHER EXPENSES:

A. The following expenses must be paid at or prior to closing:

(1) Expenses payable by Seller (Seller's Expenses):

(a) Releases of existing liens, including prepayment penalties and recording fees; release of Seller's loan liability; tax statements or certificates; preparation of deed; one-half of escrow fee; and other expenses payable by Seller under this contract.

(b) Seller shall also pay an amount not to exceed $ ____________ to be applied in the following order: Buyer's Expenses which Buyer is prohibited from paying by FHA, VA, Texas Veteran's Housing Assistance Program or other governmental loan programs; Buyer's prepaid items; other Buyer's expenses.

(2) Expenses payable by Buyer (Buyer's Expenses):

(a) Loan origination, discount, buy-down, and commitment fees (Loan Fees).

(b) Appraisal fees; loan application fees; credit reports; preparation of loan documents; interest on the notes from date of disbursement to one month prior to dates of first monthly payments; recording fees; copies of easements and restrictions; mortgagee title policy with endorsements required by lender; loan-related inspection fees; photos, amortization schedules, one-half of escrow fee; all prepaid items, including required premiums for flood and hazard insurance, reserve deposits for insurance, ad valorem taxes and special governmental assessments; final compliance inspection; courier fee, repair inspection, underwriting fee and wire transfer, expenses incident to any loan, and other expenses payable by Buyer under this contract.

B. Buyer shall pay Private Mortgage Insurance Premium (PMI), VA Loan Funding Fee, or FHA Mortgage Insurance Premium (MIP) as required by the lender.

C. If any expense exceeds an amount expressly stated in this contract for such expense to be paid by a party, that party may terminate this contract unless the other party agrees to pay such excess. Buyer may not pay charges and fees expressly prohibited by FHA, VA, Texas Veteran's Housing Assistance Program or other governmental loan program regulations.

13. PRORATIONS: Taxes for the current year, interest, maintenance fees, assessments, dues and rents will be prorated through the Closing Date. If taxes for the current year vary from the amount prorated at closing, the parties shall adjust the prorations when tax statements for the current year are available. If taxes are not paid at or prior to closing, Buyer shall pay taxes for the current year.

14. CASUALTY LOSS: If any part of the Property is damaged or destroyed by fire or other casualty after the effective date of this contract, Seller shall restore the Property to its previous condition as soon as reasonably possible, but in any event by the Closing Date. If Seller fails to do so due to factors beyond Seller's control, Buyer may (a) terminate this contract and the earnest money will be refunded to Buyer (b) extend the time for performance up to 15 days and the Closing Date will be extended as necessary or (c) accept the Property in its damaged condition with an assignment of insurance proceeds and receive credit from Seller at closing in the amount of the deductible under the insurance policy. Seller's obligations under this paragraph are independent of any obligations of Seller under Paragraph 7.

15. DEFAULT: If Buyer fails to comply with this contract, Buyer will be in default, and Seller may (a) enforce specific performance, seek such other relief as may be provided by law, or both, or (b) terminate this contract and receive the earnest money as liquidated damages, thereby releasing both parties from this contract. If, due to factors beyond Seller's control, Seller fails within the time allowed to make any non-casualty repairs or deliver the Commitment, or survey, if required of Seller, Buyer may (a) extend the time for performance up to 15 days and the Closing Date will be extended as necessary or (b) terminate this contract as the sole remedy and receive the earnest money. If Seller fails to comply with this contract for any other reason, Seller will be in default and Buyer may (a) enforce specific performance, seek such other relief as may be provided by law, or both, or (b) terminate this contract and receive the earnest money, thereby releasing both parties from this contract.

16. MEDIATION: It is the policy of the State of Texas to encourage resolution of disputes through alternative dispute resolution procedures such as mediation. Any dispute between Seller and Buyer related to this contract which is not resolved through informal discussion ☐will ☐will not be submitted to a mutually acceptable mediation service or provider. The parties to the mediation shall bear the mediation costs equally. This paragraph does not preclude a party from seeking equitable relief from a court of competent jurisdiction.

17. ATTORNEY'S FEES: The prevailing party in any legal proceeding related to this contract is entitled to recover reasonable attorney's fees and all costs of such proceeding incurred by the prevailing party.

18. ESCROW: The escrow agent is not (a) a party to this contract and does not have liability for the performance or nonperformance of any party to this contract, (b) liable for interest on the earnest money and (c) liable for the loss of any earnest money caused by the failure of any financial institution in which the earnest money has been deposited unless the financial institution is acting as escrow agent. At closing, the earnest money must be applied first to any cash down payment, then to Buyer's Expenses and any excess refunded to Buyer. If both parties make written demand for the earnest money, escrow agent may require payment of unpaid expenses incurred on behalf of the parties and a written release of liability of escrow agent from all parties. If one party makes written demand for the earnest money, escrow agent shall give notice of the demand by providing to the other party a copy of the demand. If escrow agent does not receive written objection to the demand from the other party within 30 days after notice to the other party, escrow agent may disburse the earnest money to the party making demand reduced by the amount of unpaid expenses incurred on behalf of the party receiving the earnest money and escrow agent may pay the same to the creditors. If escrow agent complies with the provisions of this paragraph, each party hereby releases escrow agent from all adverse claims related to the disbursal of the earnest money. Escrow agent's notice to the other party will be effective when deposited in the U. S. Mail, postage prepaid, certified mail, return receipt requested, addressed to the other party at such party's address shown below. Notice of objection to the demand will be deemed effective upon receipt by escrow agent.

19. REPRESENTATIONS: Seller represents that as of the Closing Date (a) there will be no liens, assessments, or security interests against the Property which will not be satisfied out of the sales proceeds unless securing payment of any loans assumed by Buyer and (b) assumed loans will not be in default. If any representation of Seller in this contract is untrue on the Closing Date, Buyer may terminate this contract and the earnest money will be refunded to Buyer.

20. FEDERAL TAX REQUIREMENTS: If Seller is a "foreign person," as defined by applicable law, or if Seller fails to deliver an affidavit to Buyer that Seller is not a "foreign person," then Buyer shall withhold from the sales proceeds an amount sufficient to comply with applicable tax law and deliver the same to the Internal Revenue Service together with appropriate tax forms. Internal Revenue Service regulations require filing written reports if currency in excess of specified amounts is received in the transaction.

21. NOTICES: All notices from one party to the other must be in writing and are effective when mailed to, hand-delivered at, or transmitted by facsimile as follows:

To Buyer at:	**To Seller at:**
______________________	______________________
______________________	______________________
______________________	______________________
Telephone:(____) ____________	Telephone:(____) ____________
Facsimile:(____) ____________	Facsimile:(____) ____________

22. AGREEMENT OF PARTIES: This contract contains the entire agreement of the parties and cannot be changed except by their written agreement. Addenda which are a part of this contract are (check all applicable boxes):

- ☐ Third Party Financing Condition Addendum
- ☐ Addendum for Property Subject to Mandatory Membership in an Owners' Association
- ☐ Seller Financing Addendum
- ☐ Environmental Assessment, Threatened or Endangered Species and Wetlands Addendum

- ❑ Loan Assumption Addendum
- ❑ Buyer's Temporary Residential Lease
- ❑ Seller's Temporary Residential Lease
- ❑ Addendum for Sale of Other Property by Buyer
- ❑ Addendum for Seller's Disclosure of Information on Lead-based Paint and Lead-based Paint Hazards as Required by Federal Law
- ❑ Addendum for "Back-Up" Contract
- ❑ Addendum for Coastal Area Property
- ❑ Addendum for Property Located Seaward of the Gulf Intracoastal Waterway
- ❑ Addendum for Release of Liability on Assumption of FHA, VA, or Conventional Loan Restoration of Seller's Entitlement for VA Guaranteed Loan
- ❑ Other (list): ______________________________

____

23. **TERMINATION OPTION: This paragraph will be a part of this contract ONLY if both blanks are filled in and Buyer has paid the Option Fee.** Buyer has paid Seller $______________ (Option Fee) for the unrestricted right to terminate this contract by giving notice of termination to Seller within ________ days after the effective date of this contract. If Buyer gives notice of termination within the time specified, the Option Fee will not be refunded, however, any earnest money will be refunded to Buyer. The Option Fee ❑will ❑will not be credited to the Sales Price at closing. For the purposes of this paragraph, time is of the essence; strict compliance with the time for performance stated herein is required.

24. **CONSULT AN ATTORNEY:** Real estate licensees cannot give legal advice. READ THIS CONTRACT CAREFULLY. If you do not understand the effect of this contract, consult an attorney BEFORE signing.

Buyer's Attorney is:______________________	Seller's Attorney is:______________________
______________________	______________________
Telephone: (____)______________________	Telephone: (____)______________________
Facsimile: (____)______________________	Facsimile: (____)______________________

EXECUTED the _______day of ________________________, 20____ (EFFECTIVE DATE).
(BROKER: FILL IN THE DATE OF FINAL ACCEPTANCE.)

______________________ Buyer	______________________ Seller
______________________ Buyer	______________________ Seller

The form of this contract has been approved by the Texas Real Estate Commission. TREC forms are intended for use only by trained real estate licensees. No representation is made as to the legal validity or adequacy of any provision in any specific transactions. It is not suitable for complex transactions. Texas Real Estate Commission, P.O. Box 12188, Austin, TX 78711-2188, 1-800-250-8732 or (512) 459-6544 (http://www.trec.state.tx.us) TREC NO. 20-6. This form replaces TREC NO. 20-5.

SELLER'S RECEIPT

Receipt of $______________ (Option Fee) in the form of ____________________ is acknowledged.

______________________________ ______________________________
Seller Date

BROKER INFORMATION AND RATIFICATION OF FEE

Listing Broker has agreed to pay Other Broker ______________________ of the total sales price when Listing Broker's fee is received. Escrow Agent is authorized and directed to pay Other Broker from Listing Broker's fee at closing.

____
Other Broker

____
License No. Telephone

represents ☐ Buyer only as Buyer's agent
☐ Seller as Listing Broker's subagent

____
Associate Telephone

____
Broker's Address

____
Facsimile

____
Listing Broker

____
License No. Telephone

represents ☐ Seller and Buyer as an intermediary
☐ Seller only as Seller's agent

____
Listing Associate Telephone

____
Listing Associate's Office Address Facsimile

____
Selling Associate Telephone

____
Selling Associate's Office Address Facsimile

RECEIPT

Receipt of ☐ Contract and ☐ $____________ Earnest Money in the form of ______________ is acknowledged.

Escrow Agent: ______________________________ Date: ____________________

By: ______________________________

______________________________ Telephone (____) ______________
Address

______________________________ Facsimile: (____) ______________
City State Zip

01A TREC NO. 20-6

Uniform Residential Loan Application

This application is designed to be completed by the applicant(s) with the Lender's assistance. Applicants should complete this form as "Borrower" or "Co-Borrower," as applicable. Co-Borrower information must also be provided (and the appropriate box checked) when ❑ the income or assets of a person other than the "Borrower" (including the Borrower's spouse) will be used as a basis for loan qualification or ❑ the income or assets of the Borrower's spouse will not be used as a basis for loan qualification, but his or her liabilities must be considered because the Borrower resides in a community property state, the security property is located in a community property state, or the Borrower is relying on other property located in a community property state as a basis for repayment of the loan.

I. TYPE OF MORTGAGE AND TERMS OF LOAN

Mortgage Applied for: ❑ VA ❑ FHA ❑ Conventional ❑ USDA/Rural Housing Service ❑ Other (explain):

Agency Case Number

Lender Case Number

Amount $

Interest Rate %

No. of Months

Amortization Type: ❑ Fixed Rate ❑ GPM ❑ Other (explain): ❑ ARM (type):

II. PROPERTY INFORMATION AND PURPOSE OF LOAN

Subject Property Address (street, city, state, & ZIP)

No. of Units

Legal Description of Subject Property (attach description if necessary)

Year Built

Purpose of Loan ❑ Purchase ❑ Construction ❑ Other (explain): ❑ Refinance ❑ Construction-Permanent

Property will be: ❑ Primary Residence ❑ Secondary Residence ❑ Investment

Complete this line if construction or construction-permanent loan.

Year Lot Acquired	Original Cost	Amount Existing Liens	(a) Present Value of Lot	(b) Cost of Improvements	Total (a + b)
	$	$	$	$	$

Complete this line if this is a refinance loan.

Year Acquired	Original Cost	Amount Existing Liens	Purpose of Refinance	Describe Improvements ❑ made ❑ to be made
	$	$		Cost: $

Title will be held in what Name(s)

Manner in which Title will be held

Estate will be held in: ❑ Fee Simple ❑ Leasehold (show expiration date)

Source of Down Payment, Settlement Charges and/or Subordinate Financing (explain)

III. BORROWER INFORMATION

Borrower	Co-Borrower
Borrower's Name (include Jr. or Sr. if applicable)	Co-Borrower's Name (include Jr. or Sr. if applicable)
Social Security Number / Home Phone (incl. area code) / DOB (MM/DD/YYYY) / Yrs. School	Social Security Number / Home Phone (incl. area code) / DOB (MM/DD/YYYY) / Yrs. School
❑ Married ❑ Unmarried (include single, divorced, widowed) ❑ Separated / Dependents (not listed by Co-Borrower) no. ages	❑ Married ❑ Unmarried (include single, divorced, widowed) ❑ Separated / Dependents (not listed by Borrower) no. ages
Present Address (street, city, state, ZIP) ❑ Own ❑ Rent _______No. Yrs.	Present Address (street, city, state, ZIP) ❑ Own ❑ Rent _______No. Yrs.
Mailing Address, if different from Present Address	Mailing Address, if different from Present Address

If residing at present address for less than two years, complete the following:

Borrower	Co-Borrower
Former Address (street, city, state, ZIP) ❑ Own ❑ Rent _______No. Yrs.	Former Address (street, city, state, ZIP) ❑ Own ❑ Rent _______No. Yrs.

IV. EMPLOYMENT INFORMATION

Borrower	Co-Borrower
Name & Address of Employer ❑ Self Employed / Yrs. on this job / Yrs. employed in this line of work/profession	Name & Address of Employer ❑ Self Employed / Yrs. on this job / Yrs. employed in this line of work/profession
Position/Title/Type of Business / Business Phone (incl. area code)	Position/Title/Type of Business / Business Phone (incl. area code)

If employed in current position for less than two years or if currently employed in more than one position, complete the following:

Borrower	Co-Borrower
Name & Address of Employer ❑ Self Employed / Dates (from – to) / Monthly Income $	Name & Address of Employer ❑ Self Employed / Dates (from – to) / Monthly Income $
Position/Title/Type of Business / Business Phone (incl. area code)	Position/Title/Type of Business / Business Phone (incl. area code)
Name & Address of Employer ❑ Self Employed / Dates (from – to) / Monthly Income $	Name & Address of Employer ❑ Self Employed / Dates (from – to) / Monthly Income $
Position/Title/Type of Business / Business Phone (incl. area code)	Position/Title/Type of Business / Business Phone (incl. area code)

V. MONTHLY INCOME AND COMBINED HOUSING EXPENSE INFORMATION

Gross Monthly Income	Borrower	Co-Borrower	Total	Combined Monthly Housing Expense	Present	Proposed
Base Empl. Income*	$	$	$	Rent	$	
Overtime				First Mortgage (P&I)		$
Bonuses				Other Financing (P&I)		
Commissions				Hazard Insurance		
Dividends/Interest				Real Estate Taxes		
Net Rental Income				Mortgage Insurance		
Other (before completing, see the notice in "describe other income," below)				Homeowner Assn. Dues		
				Other:		
Total	$	$	$	Total	$	$

* Self Employed Borrower(s) may be required to provide additional documentation such as tax returns and financial statements.

Describe Other Income *Notice:* Alimony, child support, or separate maintenance income need not be revealed if the Borrower (B) or Co-Borrower (C) does not choose to have it considered for repaying this loan.

B/C		Monthly Amount
		$

VI. ASSETS AND LIABILITIES

This Statement and any applicable supporting schedules may be completed jointly by both married and unmarried Co-Borrowers if their assets and liabilities are sufficiently joined so that the Statement can be meaningfully and fairly presented on a combined basis; otherwise, separate Statements and Schedules are required. If the Co-Borrower section was completed about a spouse, this Statement and supporting schedules must be completed about that spouse also.

Completed ☐ Jointly ☐ Not Jointly

ASSETS Description	Cash or Market Value
Cash deposit toward purchase held by:	$
List checking and savings accounts below	
Name and address of Bank, S&L, or Credit Union	
Acct. no.	$
Name and address of Bank, S&L, or Credit Union	
Acct. no.	$
Name and address of Bank, S&L, or Credit Union	
Acct. no.	$
Name and address of Bank, S&L, or Credit Union	
Acct. no.	$
Stocks & Bonds (Company name/number & description)	$
Life insurance net cash value	$
Face amount: $	
Subtotal Liquid Assets	$
Real estate owned (enter market value from schedule of real estate owned)	$
Vested interest in retirement fund	$
Net worth of business(es) owned (attach financial statement)	$
Automobiles owned (make and year)	$
Other Assets (itemize)	$
Total Assets a.	$

Liabilities and Pledged Assets. List the creditor's name, address and account number for all outstanding debts, including automobile loans, revolving charge accounts, real estate loans, alimony, child support, stock pledges, etc. Use continuation sheet, if necessary. Indicate by (*) those liabilities which will be satisfied upon sale of real estate owned or upon refinancing of the subject property.

LIABILITIES	Monthly Payment & Months Left to Pay	Unpaid Balance
Name and address of Company Acct. no.	$ Payment/Months	$
Name and address of Company Acct. no.	$ Payment/Months	$
Name and address of Company Acct. no.	$ Payment/Months	$
Name and address of Company Acct. no.	$ Payment/Months	$
Name and address of Company Acct. no.	$ Payment/Months	$
Name and address of Company Acct. no.	$ Payment/Months	$
Name and address of Company Acct. no.	$ Payment/Months	$
Alimony/Child Support/Separate Maintenance Payments Owed to:	$	
Job-Related Expense (child care, union dues, etc.)	$	
Total Monthly Payments	$	
Net Worth (a minus b) ▶ $	**Total Liabilities b.**	$

VI. ASSETS AND LIABILITIES (cont.)

Schedule of Real Estate Owned (If additional properties are owned, use continuation sheet.)

Property Address (enter S if sold, PS if pending sale or R if rental being held for income)	Type of Property	Present Market Value	Amount of Mortgages & Liens	Gross Rental Income	Mortgage Payments	Insurance, Maintenance, Taxes & Misc.	Net Rental Income
		$	$	$	$	$	$
	Totals	$	$	$	$	$	$

List any additional names under which credit has previously been received and indicate appropriate creditor name(s) and account number(s):

Alternate Name	Creditor Name	Account Number

VII. DETAILS OF TRANSACTION

a. Purchase price	$
b. Alterations, improvements, repairs	
c. Land (if acquired separately)	
d. Refinance (incl. debts to be paid off)	
e. Estimated prepaid items	
f. Estimated closing costs	
g. PMI, MIP, Funding Fee	
h. Discount (if Borrower will pay)	
i. **Total costs (add items a through h)**	
j. Subordinate financing	
k. Borrower's closing costs paid by Seller	
l. Other Credits (explain)	
m. Loan amount (exclude PMI, MIP, Funding Fee financed)	
n. PMI, MIP, Funding Fee financed	
o. Loan amount (add m & n)	
p. Cash from/to Borrower (subtract j, k, l & o from i)	

VIII. DECLARATIONS

If you answer "Yes" to any questions a through i, please use continuation sheet for explanation.

	Borrower Yes	Borrower No	Co-Borrower Yes	Co-Borrower No
a. Are there any outstanding judgments against you?	☐	☐	☐	☐
b. Have you been declared bankrupt within the past 7 years?	☐	☐	☐	☐
c. Have you had property foreclosed upon or given title or deed in lieu thereof in the last 7 years?	☐	☐	☐	☐
d. Are you a party to a lawsuit?	☐	☐	☐	☐
e. Have you directly or indirectly been obligated on any loan which resulted in foreclosure, transfer of title in lieu of foreclosure, or judgment? (This would include such loans as home mortgage loans, SBA loans, home improvement loans, educational loans, manufactured (mobile) home loans, any mortgage, financial obligation, bond, or loan guarantee. If "Yes," provide details, including date, name and address of Lender, FHA or VA case number, if any, and reasons for the action.)	☐	☐	☐	☐
f. Are you presently delinquent or in default on any Federal debt or any other loan, mortgage, financial obligation, bond, or loan guarantee? If "Yes," give details as described in the preceding question.	☐	☐	☐	☐
g. Are you obligated to pay alimony, child support, or separate maintenance?	☐	☐	☐	☐
h. Is any part of the down payment borrowed?	☐	☐	☐	☐
i. Are you a co-maker or endorser on a note?	☐	☐	☐	☐
j. Are you a U.S. citizen?	☐	☐	☐	☐
k. Are you a permanent resident alien?	☐	☐	☐	☐
l. **Do you intend to occupy the property as your primary residence?** If "Yes," complete question m below.	☐	☐	☐	☐
m. Have you had an ownership interest in a property in the last three years?	☐	☐	☐	☐
(1) What type of property did you own—principal residence (PR), second home (SH), or investment property (IP)?				
(2) How did you hold title to the home—solely by yourself (S), jointly with your spouse (SP), or jointly with another person (O)?				

IX. ACKNOWLEDGMENT AND AGREEMENT

Each of the undersigned specifically represents to Lender and to Lender's actual or potential agents, brokers, processors, attorneys, insurers, servicers, successors and assigns and agrees and acknowledges that: (1) the information provided in this application is true and correct as of the date set forth opposite my signature and that any intentional or negligent misrepresentation of this information contained in this application may result in civil liability, including monetary damages, to any person who may suffer any loss due to reliance upon any misrepresentation that I have made on this application, and/or in criminal penalties including, but not limited to, fine or imprisonment or both under the provisions of Title 18, United States Code, Sec. 1001, et seq.; (2) the loan requested pursuant to this application (the "Loan") will be secured by a mortgage or deed of trust on the property described herein; (3) the property will not be used for any illegal or prohibited purpose or use; (4) all statements made in this application are made for the purpose of obtaining a residential mortgage loan; (5) the property will be occupied as indicated herein; (6) any owner or servicer of the Loan may verify or reverify any information contained in the application from any source named in this application, and Lender, its successors or assigns may retain the original and/or an electronic record of this application, even if the Loan is not approved; (7) the Lender and its agents, brokers, insurers, servicers, successors and assigns may continuously rely on the information contained in the application, and I am obligated to amend and/or supplement the information provided in this application if any of the material facts that I have represented herein should change prior to closing of the Loan; (8) in the event that my payments on the Loan become delinquent, the owner or servicer of the Loan may, in addition to any other rights and remedies that it may have relating to such delinquency, report my name and account information to one or more consumer credit reporting agencies; (9) ownership of the Loan and/or administration of the Loan account may be transferred with such notice as may be required by law; (10) neither Lender nor its agents, brokers, insurers, servicers, successors or assigns has made any representation or warranty, express or implied, to me regarding the property or the condition or value of the property; and (11) my transmission of this application as an "electronic record" containing my "electronic signature," as those terms are defined in applicable federal and/or state laws (excluding audio and video recordings), or my facsimile transmission of this application containing a facsimile of my signature, shall be as effective, enforceable and valid as if a paper version of this application were delivered containing my original written signature.

Borrower's Signature	Date	Co-Borrower's Signature	Date
X		X	

X. INFORMATION FOR GOVERNMENT MONITORING PURPOSES

The following information is requested by the Federal Government for certain types of loans related to a dwelling in order to monitor the lender's compliance with equal credit opportunity, fair housing and home mortgage disclosure laws. You are not required to furnish this information, but are encouraged to do so. The law provides that a lender may discriminate neither on the basis of this information, nor on whether you choose to furnish it. If you furnish the information, please provide both ethnicity and race. For race, you may check more than one designation. If you do not furnish ethnicity, race, or sex, under Federal regulations, this lender is required to note the information on the basis of visual observation or surname. If you do not wish to furnish the information, please check the box below. (Lender must review the above material to assure that the disclosures satisfy all requirements to which the lender is subject under applicable state law for the particular type of loan applied for.)

BORROWER	☐ I do not wish to furnish this information.	**CO-BORROWER**	☐ I do not wish to furnish this information.
Ethnicity:	☐ Hispanic or Latino ☐ Not Hispanic or Latino	**Ethnicity:**	☐ Hispanic or Latino ☐ Not Hispanic or Latino
Race:	☐ American Indian or Alaska Native ☐ Asian ☐ Black or African American ☐ Native Hawaiian or Other Pacific Islander ☐ White	**Race:**	☐ American Indian or Alaska Native ☐ Asian ☐ Black or African American ☐ Native Hawaiian or Other Pacific Islander ☐ White
Sex:	☐ Female ☐ Male	**Sex:**	☐ Female ☐ Male

To be Completed by Interviewer	Interviewer's Name (print or type)	Name and Address of Interviewer's Employer
This application was taken by:	Interviewer's Signature — Date	
☐ Face-to-face interview ☐ Mail ☐ Telephone ☐ Internet	Interviewer's Phone Number (incl. area code)	

Continuation Sheet/Residential Loan Application

Use this continuation sheet if you need more space to complete the Residential Loan Application. Mark **B** for Borrower or **C** for Co-Borrower.	Borrower:	Agency Case Number:
	Co-Borrower:	Lender Case Number:

I/We fully understand that it is a Federal crime punishable by fine or imprisonment, or both, to knowingly make any false statements concerning any of the above facts as applicable under the provisions of Title 18, United States Code, Section 1001, et seq.

Borrower's Signature	Date	Co-Borrower's Signature	Date
X		X	

On closing day, all accounts are settled and title to the house actually passes to the buyer. In one simultaneous procedure:

- The seller receives the price of the house and retires the old loan (unless the buyer is assuming the loan).
- The sales agent(s) receives a commission (the commission may be split between listing and selling brokers).
- All fees are paid (including title insurance premiums, survey costs, fees for filing documents, unpaid attorneys' fees and inspector's charges).
- The lender supplies the proceeds from the loan and collects origination fees and discount points. This is the first day of the new loan — from then on it begins to accrue interest. The lender usually requires interest to be paid at the closing to cover the period from closing day to the end of the month. All other interest payments are made at the end of each month.
- The buyer receives documents that signify the passage of ownership of the property from the seller to the buyer.

For all practical purposes, closing ends all negotiations and contingencies associated with the transaction. For this reason, it is important that all parties prepare before closing day. If not, closing may be delayed, which can be inconvenient for both seller and buyer.

The most common reasons that closings do not proceed as scheduled are connected with failures to make the necessary preparations. Sometimes the seller has a problem clearing the title for sale. There may be existing liens, claims filed by those with partial interests in the property, or an ex-spouse with community property rights that complicate the process.

If the property becomes involved in a lawsuit, the title may be impossible to clear for several years. Another problem arises when the buyer has trouble arranging a mortgage loan. The appraisal may be too low to justify the loan amount requested, or the buyer may not qualify. When loan activity is heavy, approval can be delayed.

The seller can entertain contingent contracts from other buyers after the first contract is signed. These contracts have no effect on the original contract as long as the deadlines on contingencies are not exceeded. If the buyer is turned down for a mortgage, however, the house may be sold to another buyer before the first buyer can reapply.

Here is a good way that you, as the buyer, can prepare for a closing. Assume you have a mortgage already approved. Follow these steps:

Conduct a preliminary walk through of the home several days before closing. This is your opportunity to check that everything is acceptable. The **day of closing** is ideal for a final walk through. If the sales contract states that everything will be complete and in working order, make sure this is so. If you had an inspector go through the property and the seller promised to fix specific defects, make sure this work has been done. Once the closing takes place, it may be difficult or impossible to correct any problems with the property.

Get a good estimate of the cash required at closing. The title company handling the closing can provide a reasonably accurate accounting. Make sure you can provide a certified check for your share of expenses on closing day (copy of settlement on page 29).

Verify that all inspections have been made and that all required repairs have been completed. Unless you waived the provision, the sales contract provides you an option period during which you may cancel the sale and recover your deposit for any reason. The property inspection should be completed during the option period, so you can decide whether you want to complete the transaction. Most sellers are willing to work out any problems you may find by repairing or adjusting the sales price for any defects found. It is important to complete these inspections prior to the end of the option period. If the period expires without exercising the option, the contract becomes binding on both parties. If any condition of the property is misrepresented, however, you still have remedies against the seller. Basically, the property is yours "as is" after closing.

You may want to **hire an attorney to review all documents** and **represent you at the closing**. Arrange for this beforehand.

Arrange for a hazard insurance policy to be written on the property. The lender will require the house to be insured for at least the amount of the loan. At closing you will pay the first year's premium plus an amount to start the escrow account (usually two or three month's prorated premium).

Make sure the survey is completed as required by the lender.

Review the HUD booklet on settlement costs. You should have received a copy from your lender when you applied for your mortgage. If not, get a copy from the Office of Consumer and Regulatory Affairs, Attention: RESPA/Special Information Booklet, Room 9146, HUD, 451 Seventh St. SW., Washington, DC 20410 (you can download a copy from the internet at www.hud.gov/fha/res/sfhrestc.html). This publication explains the closing process and the purpose of various common legal forms.

If it looks like the closing will be delayed, it may be possible to move the closing date. The date stated in the sales contract is understood as an approximation. Unless the market is unusually active, with many buyers vying for each home, the seller should be willing to comply.

If the closing is delayed, you may be caught without a place to move into after vacating your previous residence. This may occur if you have sold your old house, your apartment lease has expired or you moved from another town. You may be able to arrange with the seller to lease the new house on a temporary basis prior to closing if the home is vacant during that time. You may wish to have this agreement in writing and to make sure your insurance covers your belongings while they are in the new home.

At closing, you will sign numerous documents. The following are most common.

Settlement statement. Shows an itemized list of the closing costs charged to each party. Of special note are the various prorated expenses. Property taxes, insurance premiums and other recurring expenses generally are paid once a year. If paid by the seller, you are charged a proportional amount based on the remaining days in the year. If due after the closing, you will be given a credit for the days in which the seller owned the home.

Loan disclosure. Gives certain information about the mortgage loan. The annual percentage rate of interest is calculated. This amount takes into account the discount points paid at closing, assuming their costs are spread out over the term of the loan. Also shown is the total amount of interest paid over the loan term, the amount of the monthly payment of interest and principal, the number of payments for the term and the date on which the first payment is due.

Mortgage note. Signifies your responsibility to pay back the amount borrowed on the mortgage.

Deed of Trust. Pledges the house as security for the mortgage loan. If you default on the mortgage note, the deed of trust allows a designated trustee to sell the property and use the proceeds to satisfy the debt. This procedure is known as **foreclosure** because it terminates your interest in the property.

Deed. Transfers the title of the property to your name. In most cases, you receive a warranty deed, meaning that the seller guarantees that the title is clear and that all prior claims against the property have been settled. Alternatively, the seller may give a special warranty deed guaranteeing that any claims arising during the seller's ownership have been settled. Any additional liability stemming from a special warranty deed is assumed by the title company.

Title policy. Provides protection if legitimate claims to the property title arise. The lender probably will require a title policy to cover the lender's interest. The homebuyer/borrower can purchase an additional policy to cover the value of the entire property.

Additional documents. You may request copies of other documents associated with the transaction. These include the survey map, the appraisal and the inspection certificates, which are useful for future reference.

1197-3000-1044

A. **Settlement Statement**

U.S. Department of Housing and Urban Development

OMB Approval No. 2502-0265

B. Type of Loan

1. ☐ FHA 2. ☐ FmHA 3. ☐ Conv. Unins. 4. ☐ VA 5. ☐ Conv. Ins.	6. File Number:	7. Loan Number:	8. Mortgage Insurance Case Number:

C. Note: This form is furnished to give you a statement of actual settlement costs. Amounts paid to and by the settlement agent are shown. Items marked "(p.o.c.)" were paid outside the closing; they are shown here for informational purposes and are not included in the totals.

D. Name & Address of Borrower:	E. Name & Address of Seller:	F. Name & Address of Lender:

G. Property Location:	H. Settlement Agent:	
	Place of Settlement:	I. Settlement Date:

J. Summary of Borrower's Transaction		K. Summary of Seller's Transaction	
100. Gross Amount Due From Borrower		**400. Gross Amount Due To Seller**	
101. Contract sales price		401. Contract sales price	
102. Personal property		402. Personal property	
103. Settlement charges to borrower (line 1400)		403.	
104.		404.	
105.		405.	
Adjustments for items paid by seller in advance		**Adjustments for items paid by seller in advance**	
106. City/town taxes to		406. City/town taxes to	
107. County taxes to		407. County taxes to	
108. Assessments to		408. Assessments to	
109.		409.	
110.		410.	
111.		411.	
112.		412.	
120. Gross Amount Due From Borrower		**420. Gross Amount Due To Seller**	
200. Amounts Paid By Or In Behalf Of Borrower		**500. Reductions In Amount Due To Seller**	
201. Deposit or earnest money		501. Excess deposit (see instructions)	
202. Principal amount of new loan(s) 502.		Settlement charges to seller (line 1400)	
203. Existing loan(s) taken subject to503.		Existing loan(s) taken subject to	
204.		504. Payoff of first mortgage loan	
205.		505. Payoff of second mortgage loan	
206.		506.	
207.		507.	
208.		508.	
209.		509.	
Adjustments for items unpaid by seller		**Adjustments for items unpaid by seller**	
210. City/town taxes to		510. City/town taxes to	
211. County taxes to		511. County taxes to	
212. Assessments to		512. Assessments to	
213.		513.	
214.		514.	
215.		515.	
216.		516.	
217.		517.	
218.		518.	
219.		519.	
220. Total Paid By/For Borrower		**520. Total Reduction Amount Due Seller**	
300. Cash At Settlement From/To Borrower		**600. Cash At Settlement To/From Seller**	
301. Gross Amount due from borrower (line 120)		601. Gross amount due to seller (line 420)	
302. Less amounts paid by/for borrower (line 220)	( )	602. Less reductions in amt. due seller (line 520)	( )
303. Cash ☐ From ☐ To Borrower		**603. Cash ☐ To ☐ From Seller**	

L. Settlement Charges

	Paid From Borrowers Funds at Settlement	Paid From Seller's Funds at Settlement
700. Total Sales/Broker's Commission based on price $ @ % =		
Division of Commission (line 700) as follows:		
701. $ to		
702. $ to		
703. Commission paid at Settlement		
704.		
800. Items Payable In Connection With Loan		
801. Loan Origination Fee %		
802. Loan Discount %		
803. Appraisal Fee to		
804. Credit Report to		
805. Lender's Inspection Fee		
806. Mortgage Insurance Application Fee to		
807. Assumption Fee		
808.		
809.		
810.		
811.		
900. Items Required By Lender To Be Paid In Advance		
901. Interest from to @$ /day		
902. Mortgage Insurance Premium for months to		
903. Hazard Insurance Premium for years to		
904. years to		
905.		
1000. Reserves Deposited With Lender		
1001. Hazard insurance months@$ per month		
1002. Mortgage insurance months@$ per month		
1003. City property taxes months@$ per month		
1004. County property taxes months@$ per month		
1005. Annual assessments months@$ per month		
1006. months@$ per month		
1007. months@$ per month		
1008. months@$ per month		
1100. Title Charges		
1101. Settlement or closing fee to		
1102. Abstract or title search to		
1103. Title examination to		
1104. Title insurance binder to		
1105. Document preparation to		
1106. Notary fees to		
1107. Attorney's fees to		
(includes above items numbers:)		
1108. Title insurance to		
(includes above items numbers:)		
1109. Lender's coverage $		
1110. Owner's coverage $		
1111.		
1112.		
1113.		
1200. Government Recording and Transfer Charges		
1201. Recording fees: Deed $; Mortgage $; Releases $		
1202. City/county tax/stamps: Deed $; Mortgage $		
1203. State tax/stamps: Deed $; Mortgage $		
1204.		
1205.		
1300. Additional Settlement Charges		
1301. Survey to		
1302. Pest inspection to		
1303.		
1304.		
1305.		
1400. Total Settlement Charges (enter on lines 103, Section J and 502, Section K)		

Public Reporting Burden for this collection of information is estimated to average 0.25 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the Reports Management Officer, Office of Information Technology, Paperwork Reduction Project (2502-0265), U.S. Department of Housing and Urban Development, Washington, D.C. 20410-3600.
Do not send this form to the above address.

The defined terms include those used most often in the homebuying process.

Adjustable Rate Mortgage (ARM). A mortgage loan that allows the lender to change the interest rate periodically in conjunction with a specified index. The interest rate applied to the loan payments varies as interest rates in the market change.

Amortization. Reduction in the amount of principal owed on a loan as payments are made over time. An amortization schedule indicates how much principal remains unpaid after each payment.

Appreciation. Increase in a home's value over time. Decline in value is called *depreciation*.

Assumption. Taking over the borrower's responsibility on an existing loan when buying the home mortgaged under that loan. The old loan may retain its current interest rate or the lender may have the authority to change the rate. Often, loan assumption relieves the buyer from obtaining new financing.

Closing. Formal transfer of property ownership from the seller to the buyer. A closing meeting is held on the closing date; at this time all funds are paid and dispersed and a deed of ownership is delivered to the buyer.

Condominium. A form of property ownership in which the individual homeowner controls the interior of the structure while the exterior plus any common areas are controlled by a homeowners' association. The homeowner is a voting member of the association and is obligated to support its activities through a monthly fee. Bylaws govern use of the common areas.

Contract interest rate. The interest rate that determines the amount of the monthly payment devoted to interest. A monthly mortgage payment has three parts: payment of interest due, a payment to reduce the amount of principal owed and an escrow fund contribution used to pay property taxes and hazard insurance premiums (some loans may carry an additional charge for mortgage insurance). The interest portion is sufficient to pay interest on unpaid principal accrued during the previous month. The principal portion is enough to amortize the amount of the loan during the loan term.

Counteroffer. The seller's response to an offer from a prospective buyer if that offer is not entirely acceptable. Generally, a counteroffer is made to raise the sales price closer to the original asking price. Through a series of such counteroffers, buyer and seller negotiate the eventual terms of the sale.

Deed of trust. Contract that pledges the home as security on the mortgage loan. Allows the property to be sold by a trustee if the borrower defaults. Sales proceeds are used to repay the loan with back interest and foreclosure costs.

Down payment. Difference between the cost of the home and the amount of the mortgage loan(s). This difference must be paid in cash by the buyer at the closing.

Duplex. A housing structure containing two separate dwelling units (a three-unit building is a triplex). Each unit has its own entrance, kitchen and bath facilities.

Earnest money. Money deposited by the buyer to back up an offer to purchase. A sales, or earnest money, contract is used to convey the offer. Earnest money may be forfeited if the buyer decides not to buy after the sales contract is signed by the seller.

Equity. The difference between the market value of the home and the amount owed on the mortgage loan. Equity represents the value of the owner's interest in the home.

FHA. The Federal Housing Administration, a federal agency that insures home mortgage loans. Loans insured by FHA allow the buyer to borrow a higher percentage of the cost of the home, thereby reducing the down payment. The size of an FHA-insured loan has an upper limit.

FICO (credit) Score. A numerical rating based on a borrower's past use of credit. It is often used to determine if a loan will be approved and what terms will be attached to the loan. Applicants with the highest scores get the lowest interest rates. Those with lower scores may be able to get "subprime" financing with a higher interest rate.

Financing. The funds necessary to purchase a home. Financing consists of all mortgage loans plus any down payment made by the buyer.

Fixed-rate loan. A mortgage loan for which the interest rate remains unchanged for the life of the loan. The portion of the monthly payment devoted to interest and principal reduction does not change over time, although the escrow payment may vary from one year to the next because of changes in taxes and insurance.

Housing Counseling Agency. An organization that provides counseling services to people seeking to buy a home. The organization may be a consumer credit counseling company, a nonprofit educational group or a department of local government. These agencies are knowledgeable about special financing and assistance programs in the area, provide counseling on problems that may develop and also provide educational programs required to get some loans.

HUD-1 Statement. A form provided to buyer and seller prior to the closing. The form details all closing expenses to be paid by the buyer and the seller in separate tallies.

Lease-purchase option. The right to buy a home at a given price included in a lease to rent that home. Often used as an interim strategy to sell homes when markets are slow. May offer a way for a prospective homebuyer to accumulate a down payment if the lease applies a portion of rent to the purchase.

Loan-to-value ratio. The amount of the mortgage loan divided by the appraised value of the home or the sales price, whichever is lower. One criterion used by lenders to indicate the risk associated with a loan. In general, loans with a ratio greater than .80 must be insured.

MLS. Multiple Listing Service. A cooperative arrangement among real estate brokers under which any member of the service may sell any property listed on the service. Greatly expands the exposure of properties listed while allowing buyers access to the greater market through any member broker.

Maturity (term). When describing a loan, the time period during which the loan is designed to amortize principal. By the end of the term, the entire principal will have been retired. Most mortgage loans have maturities of 25 or 30 years, but shorter terms have become popular.

Mortgage banker. A lender who originates mortgage loans and sells them to investors.

Mortgage broker. An agent who arranges mortgage financing for a borrower. A broker will represent one or more lenders and is compensated through fees paid by these lenders.

Mortgage commitment. Lender's pledge to provide a mortgage loan, pending approval of the loan application, at a specified interest rate. In general, the commitment is granted at the time of application and is good for a limited time, while the loan approval is in process.

Mortgage insurance. An insurance policy that protects the lender against loan default by the borrower. Insurance allows the lender to provide financing at a higher loan-to-value ratio than otherwise would be possible, thereby reducing the amount of any down payment required. Not to be confused with mortgage life insurance that protects the loan against nonpayment resulting from the borrower's death.

Mortgage note. Legal agreement that obligates the borrower to repay the loan principal according to a specified method. The note describes the loan terms and sets out the requirements that the borrower must meet.

PMI. Private mortgage insurance. Similar to FHA insurance, the policy pays benefits to the lender if the borrower defaults on the loan obligation. PMI allows lenders to make higher ratio loans, thereby reducing the down payment. Unlike FHA, however, no legal limit restricts the size of a privately insured loan.

Points or discount points. Charges attached to a mortgage loan to increase the lender's profitability. Each point charged requires a cash payment at closing of 1 percent of the loan principal. Becomes an integral part of loan pricing, such as "8 1/2 percent plus two points," meaning a loan at 8 1/2 percent interest with two points paid at closing.

Prequalifying. Process of estimating how much money the buyer may borrow based on income. When submitting a loan application, the borrower knows the amount needed to purchase the home. At prequalifying, borrowers seek to know the largest loan they may be able to obtain and, thereby, the maximum home price they can afford.

Realtor®. A real estate professional who subscribes to a strict code of ethics as a member of the local and state boards or associations and of the National Association of Realtors.

Settlement statement. An accurate estimate of all expenses that must be paid at closing. In general, the statement is provided to the buyer and seller shortly before the closing so that they will be prepared to provide a certified check for the appropriate amounts.

Title insurance. Policy that insures the buyer against legal claims to the title or some ownership interest in the property purchased. Title policies are issued based on a search of the deed records of the property to make sure that the seller has good title (no other persons may claim an interest in the property). Title insurance is required of any property that is financed through a lender.

Warranty deed. Legal instrument that conveys ownership to the buyer. The deed warrants, or guarantees, that the seller has good title and that all interests are being transferred to the seller. A special warranty deed is a bit weaker because the seller warrants that the title being transferred is as good as the one received by the seller when the property was acquired.

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Homestead

"Homestead Protection: For Whom and How Much?"
http://recenter.tamu.edu/pdf/1136.pdf

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http://recenter.tamu.edu/pdf/857.pdf

"There's No Place Like a Homestead: Texas Law Offers Unique Protection"
http://recenter.tamu.edu/pdf/525.pdf

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Insurance

"Flood Insurance for Homeowners"
http://recenter.tamu.edu/pdf/949.pdf

Land Use Restrictions

"Creating, Changing, Extending Deed Restrictions"
http://recenter.tamu.edu/pdf/1417.pdf

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Law

"Liability for Domestic Animals"
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"Protecting Nonexempt Assets"
http://recenter.tamu.edu/pdf/953.pdf

"Landlocked Property"
http://recenter.tamu.edu/pdf/947.pdf

"Safeguarding Property Rights: Protection Varies with Deed and Warranty"
http://recenter.tamu.edu/pdf/648.pdf

"Liabilities for Injuries: Landowners, Children and Perilous Conditions"
http://recenter.tamu.edu/pdf/475.pdf

Manufactured Homes

Manufactured Homebuyer's Guide
http://recenter.tamu.edu/pdf/1300.pdf

Taxes (Property)

The Texas Property Tax System
http://recenter.tamu.edu/pdf/1192.pdf

"Texas Tax Code: Unique Provisions Shelter Property Owners"
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