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buying a minnesota home

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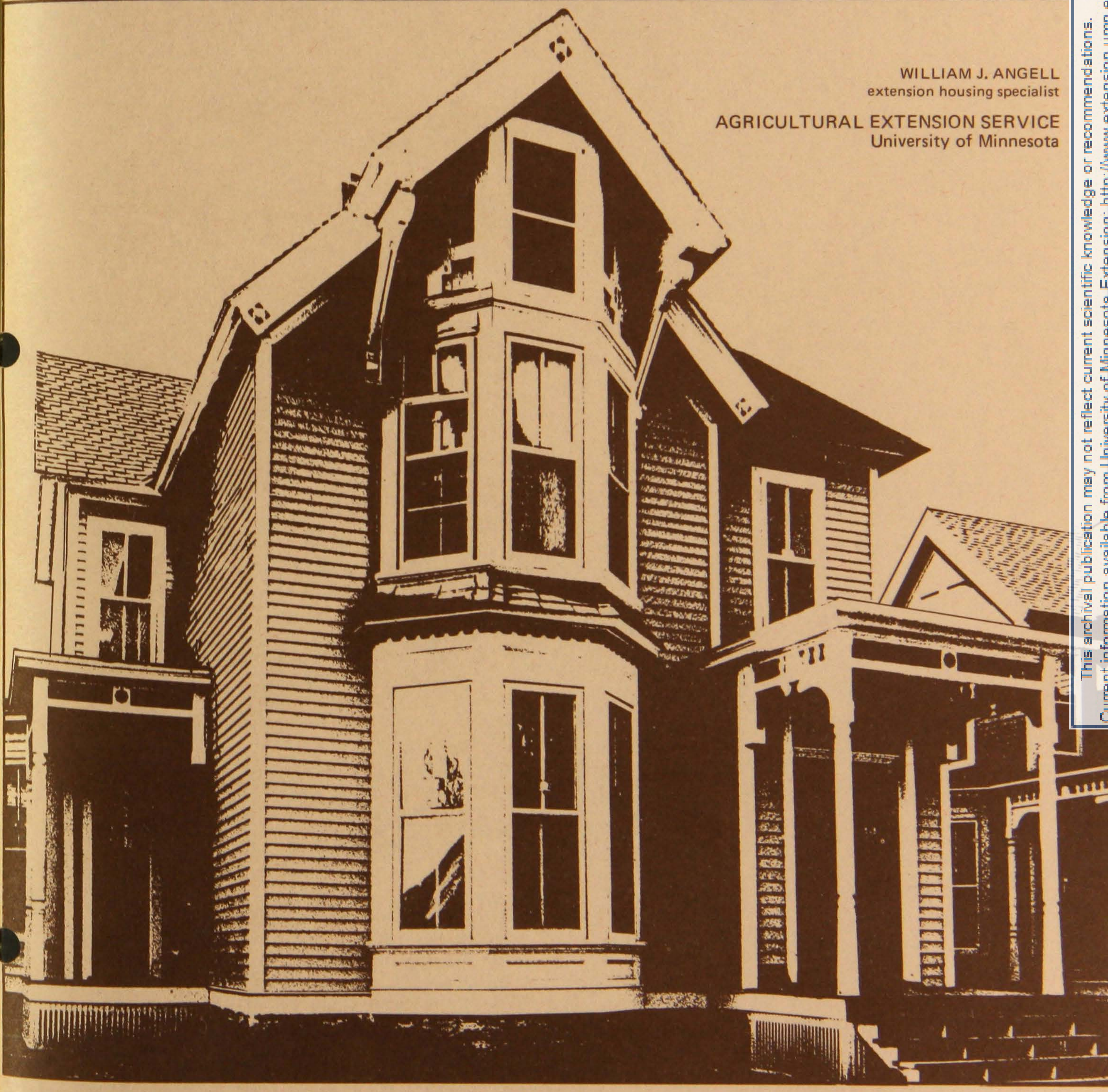

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(Flow diagrams are inserted in publication.)

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buying a minnesota home

Introduction

Buying a home is one popular method of improving your housing situation. This year in Minnesota:

- more than 60,000—about one in every 12—families will purchase a single family dwelling that is "older" or "used" (i.e., previously lived-in for any length of time) (1)[1], and
- approximately 9,000 families will purchase a single family dwelling that is "spec-built" (i.e., built by a contractor with the hope of selling it to an unknown, hypothetically "average" consumer (1)[2].

In addition, approximately 7,000 Minnesota families will build a house this year, about half hiring a "custom-builder" and about half "owner-building" (i.e., doing some or all of the work themselves). These people will be challenged by many of the same complex decisions that face people buying a home—decisions concerning financing, prices, legally binding contracts, codes, etc.

Despite its popularity, home buying can be a confusing process, leaving even the experienced buyer vulnerable to unethical "pseudo-experts". It is understandable why a good deal of consumer dissatisfaction with home buying exists, since no single expert can provide accurate and unbiased advice on all facets of buying, nor has a single book or reference been available to guide the consumer through the buying process. Furthermore, the decision to buy has a major impact upon a family's social-psychological well-being and involves long-term commitments of $250,000 or more.[3]

This publication has been designed to give you the information you need to make home buying enjoyable, exciting, and worthwhile. Since complex decisions are involved, this publication goes into substantial detail; but if you will invest the time necessary to understand the step-by-step process of home buying, you will maximize your goals at the lowest cost and with the fewest problems. You will, for example, learn:

- the basic advantages and disadvantages of buying an "older" home,
- what critical steps and alternatives exist in the buying process,
- what financial resources are available,
- how to determine what you can afford to spend for a house, and

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[1]Numbers in parentheses are references, which are listed on page 18.

[2]It is important to realize that many references reflect a hypothetical "national average" which does not accurately portray state laws, local housing market characteristics or customs, and the buyer's unique resources and needs.

[3]Estimated financial expenditures for housing over the life time of a young family with average income.

- how to avoid fraud and financially fatal errors by effectively using professional services.

This publication is divided into three sections: 1) the main text, which describes in-depth the most important aspects of home buying; 2) an appendix, which shows samples of the kinds of documents you'll encounter in the buying process and has forms to help you compare professionals' services; and 3) an explanation of the flow diagram (insert), which summarizes and graphically outlines the step-by-step decisions and alternatives involved in home buying.

For additional information, you may want to review one or more of the following publications (available from your county extension service):

- *Evaluating Structural and Exterior Components in Older Minnesota Homes*—EF 301
- *Evaluating Floor Plans and Styles of Older Minnesota Homes*—EB 408
- *Evaluating Plumbing Systems in Older Minnesota Homes*—EF 343
- *Evaluating Wiring in Older Minnesota Homes*—EF 300
- *Remodeling Older Minnesota Homes*—EF 268
- *Housing Costs in the Mid-Seventies*—EF 315

ADVANTAGES AND DISADVANTAGES OF BUYING A HOME

Consider the following advantages and disadvantages of buying a home, keeping in mind your own unique situation. Carefully weighing these factors should help you decide whether buying an "older" home, buying or building a new home, renting, or remodeling is right for you. (For an even more detailed analysis, see *Consumer Housing Alternatives*, EF 318, available from your county extension service.)

ADVANTAGES

In comparison to buying a new home, the advantages of buying an "older" home are:

—frequently, more space is available for the money invested, especially when the owner is under pressure to sell because of employment transfer, purchase of another house, etc.

—price and value are more likely to be established and not artificially inflated by stylistic features that may quickly become out-dated.

—if the house needs repair, the buyer who is able can make improvements to increase value and liveability by investing time and skills rather than scarce financial resources.

—during periods of increasing interest rates and down payment requirements, the buyer may be able to assume the seller's mortgage or negotiate a contract for deed at more favorable terms.

—it is easier to predict the costs of taxes, assessments, utilities, and insurance, since these expenses have established a relatively stable pattern over time.

—a wider range of desirable locations is available.

—it is easier to predict how family satisfaction will be influenced by location, since neighborhood character and traffic are well established and apparent.

—costly landscaping may be minimized, since trees, shrubs, and lawns are more likely to be mature.

—a greater choice of character, style, design, materials, and other features are available.

—occasionally, unique craftsmanship and finishing details may be found, which are available only in older dwellings.

—settling, shrinkage, drainage, and other problems common to new construction have become evident and may have been corrected.

In comparison to renting another dwelling, the advantages of buying are:

—while inflation will increase rent costs, the homeowner's mortgage payments generally are stable for the term of the mortgage (note: variable interest rate mortgages are an exception).

—ownership traditionally has been the best hedge against inflation for the average consumer.

—appreciation of resale value generally is treated as a "capital gain" for income, so that the tax rate is only half of that assessed against salary and wages. Capital gains also may be deferred by building or buying another home. If the seller is 65 or older, a portion (currently $35,000) is excluded from income taxation altogether.

—property tax and mortgage interest payments are deductible from both federal and state income taxes. In 1972, the average homeowner benefited about $200 by virtue of this indirect federal subsidy (11:36), and more when the state tax benefits are considered.

—since the homeowner is both landlord and tenant, there is not a transfer of payment as there is in renting; thus, the homeowner escapes additional tax burdens that the landlord would pay directly and the renter would pay indirectly. This is known as "imputed net rent" by economists. The average homeowner benefits more than $150 per year by virtue of this federal tax loophole (11:36).

—ownership may be a desirable form of (forced) savings for some consumers.

—costs of ownership exclude landlord profit and costs of managing and maintaining vacant dwellings.

—through ownership, costly services which may not be desired can be avoided (e.g., pools, party rooms, etc.).

—ownership assures the consumer he or she will not be forced to move because the lease was not renewed or the rent was increased.
—ownership reduces dependence upon others to make repairs and provide routine maintenance.
—ownership allows greater freedom to make changes and do what you want both inside and outside the dwelling.

In comparison to remodeling your present home, the advantages of buying another home are:

—certain dissatisfactions with the home may not be overcome unless you move (e.g., social or physical characteristics of neighborhood, inconvenient location, and zoning regulations prohibiting desired changes).
—homeowners seldom realistically estimate time required and social and economic costs necessary to complete complex remodeling.
—significant stress on family life, which may result from the dust, dirt, inconvenience, and uncertainties associated with remodeling, are avoided.
—interest rates for home improvement financing generally are higher than mortgage financing for buying.
—certain types of home improvements (e.g., wiring, plumbing, structural changes) should not be attempted by inexperienced owners whose sole motivation is to save money.
—when the neighborhood has irreversibly declined or serious structural, exterior, or mechanical deficiencies exist, it may be unrealistic to expect that a higher resale value after remodeling will off-set improvement expenses.

DISADVANTAGES

In comparison to buying a new home, the disadvantages of buying an "older" home are:

—although a large amount of less expensive space may be available, the floor plan may not be compatible with contemporary life styles.
—resale value may not increase as much as that of new houses (depending on location, condition, and other factors).
—resale value may not appreciate significantly with simple cosmetic improvements, if structural and utility systems are deficient.
—some financing alternatives, especially contract for deed, may be quite risky and provide less protection than normal mortgage financing.
—operating expenses for utilities and maintenance are usually more expensive.
—mortgage financing may involve somewhat less favorable terms: (e.g., slightly higher interest rate, shorter repayment period, or higher downpayment requirements).
—neighborhood may be deteriorating socially, politically, economically, and physically to such a degree that it is difficult for an individual owner to organize residents for successful change.
—original craftsmanship and finishing details may have been lost through years of short-sighted owner "improvement".
—the buyer may purchase the problems the seller is attempting to abandon.

In comparison to renting another dwelling, the disadvantages of buying are:

—ownership ties up the consumer's financial resources; thus, the homeowner loses dividends and interest the money could produce if invested wisely.
—although ownership generally has been a good hedge against inflation, financial risk does exist (e.g., during the Depression of the 1930's, values declined and resale was difficult; in many areas with declining populations, the same trends continue today, and there is no guarantee values will increase in the future).
—the "true costs" of renting may be reduced by several factors: 1) state income tax credits given to renters; 2) savings passed on to the consumer via the landlord's favorable income tax treatment under "depreciation"; and 3) in apartment situations, the lower land, construction, and maintenance costs associated with large-scale building.
—ownership costs include costly and often unexpected maintenance, repair, and replacement expenses.
—ownership limits freedom to readily change housing situations as family needs, employment, and income change.
—ownership involves the expenses of financing (generally 2 percent or more of purchase price) and, eventually, selling (generally 8 percent or more of sale price for agent's commission, "points," payment of assessments, property taxes, attorney's fee, etc.).
—special services and facilities often available to renters at a nominal charge may be too expensive for the owner to provide for him or herself.
—ownership generally requires more time and effort for routine maintenance.

In comparison to remodeling your present home, the disadvantages of buying another home are:

—neighborhood and school ties may be disrupted, and social and psychological stress and uncertainty are encountered.
—substantial financial costs of buying, selling, and moving are encountered (e.g., an owner of a $40,000 house may encounter selling costs of $5,000, prepayment and closing costs of $2,000, and initial costs of $1,000 or more).
—the buyer who already owns a home may encounter a higher interest rate than that on the existing mortgage.

—potential satisfaction and cost savings of "do-it-yourself" home improvements on another home may not be realized;
—Although home improvement financing usually involves a higher interest rate than mortgage financing, the combined interest costs of an improvement loan and existing older mortgage are generally less than the interest cost of a new mortgage.

If you do decide to buy a home, proceed with great caution! Avoid the error committed by many buyers of casually slipping from deceptively innocent "house looking" into the "falling in love" state that prompts a spontaneous offer that is a legally binding contract. There is absolutely nothing wrong with first impressions or psychological "gut-feelings". These may be very important reasons for deciding to buy; however, when you unconsciously or casually slip into this state, you are especially vulnerable to manipulation and hasty judgments you may later regret.

The Home Buying Process

OVERVIEW

Whether you are buying a home yourself, through a seller's real estate agent, or through your own real estate agent, you must be able to distinguish where you are in the buying process, diagnose "surprises," obtain critical professional help when needed, and negotiate the most favorable purchase agreement possible. To gain this expertise, you must thoroughly understand the task and decision points involved in buying and the critical interrelationships between these points.

Graphic methods of determining (and illustrating) important activities and relationships are known as flow diagrams, Performance Evaluation and Review Technique (PERT) diagrams, or Critical Path Method (CPM) diagrams. In each of the three methods, rectangles or circles are used to indicate specific steps, whereas lines indicate the flow or interrelationship between the steps. Each of these methods may be used to isolate the critical steps in any process, whether it is buying a home or building a national space program. To use these methods for planning, managing, or analyzing a process, three simple questions must be answered:

1. What steps must be completed before this step begins?
2. What steps can be carried on concurrently?
3. What steps cannot begin until this step has been completed?

More sophisticated PERT and CPM diagrams may include identification of the time, materials, and costs associated with each step as well as the individual responsible for each.

Inserted in this publication are simple flow diagrams which detail professional assistance options and "typical" steps in the pre-search, search, and post-search phases of home buying. (A step-by-step explanation of the diagrams can be found beginning on page 29.) Recognize that your approach may vary somewhat from the process as illustrated; therefore, when reviewing the diagrams feel free to insert steps and other information which may be helpful in your unique situation. Some comments follow on each of the four areas covered by the flow diagrams.

PROFESSIONAL ASSISTANCE OPTIONS

Although the assistance of various professionals is indicated throughout the diagrams, a separate explanation of service options is provided. Since many buyers simply do not understand the specialization and limited expertise each professional is equipped to provide, it is especially important to understand when and how professionals can be most helpful. See the Appendix to this publication for charts that will help you choose reliable professionals.

PRE-SEARCH PHASE

Although consumer research is incomplete or unavailable for most areas of Minnesota, it appears that before consumers begin their search for a home they follow somewhat ill-defined stages involving: 1) increasing dissatisfaction with the current housing situation; 2) informal "eyes and ears open" assessment of the housing market; and 3) preliminary consideration of financial and other resources. IT IS CRITICAL FOR CONSUMERS TO REALIZE THEY ARE EXTREMELY VULNERABLE TO ADVERTISING AND BIASED, COMMERCIAL "HELP" DURING THIS PERIOD. This vulnerability may be extremely undesirable if the consumer is pressured into buying without adequately understanding which important decisions may have been skipped and what professional assistance may have been neglected.

While the pre-search stage averages about 4 months, there appears to be a wide range of time allocated to this stage (7:61). Approximately one-fifth of buyers remain in a pre-search posture for a year or more, but the majority of buyers appear to complete this phase within 1 or 2 months (7:61 and 9:41). These "rapid graduates" of the pre-search phase are most susceptible to manipulation. This high-risk group may be profiled in the following way (4:15):

—tend to feel the greatest urgency toward making a housing change, perhaps influenced by a change in marital status, family size, rent increase, impending lease termination, or sudden income changes.[4]
—tend to be younger individuals with lower education and income.

[4]In the north-central region of the U.S., approximately 50 percent of home buyers report moving due to job transfer, new job, retirement, job commuting, marriage, increased family size, and other job and family related reasons (2:43).

—tend to have the strongest preference for a "used" home and to have lower confidence and less flexibility in considering "new" or both "new" and "used" alternatives.

Unique family situations and housing market characteristics will cause divergence, and not every "rapid graduate" family shows these characteristics; but ANYTIME A PROSPECTIVE BUYER FEELS THE DILEMMA OF URGENCY, INFLEXIBILITY IN CONSIDERING ALTERNATIVES, AND SUBSTANTIAL FINANCIAL PRESSURES, HE OR SHE SHOULD REALIZE THAT VULNERABILITY TO PRESSURE TACTICS, MANIPULATION, AND FINANCIAL AND LEGAL MISTAKES IS GREATLY INCREASED.

To avoid frustration and problems, you should approach the search phase with adequate consideration of the following:

—reasons a move may be desirable and what should be accomplished by the move (to adequately complete this definition, most families will find a considerable investment of time and excellent intrafamily communication critical).

—amount of financial and human resources which can and should be allocated to housing.

—evaluation of types and sources of financing, including down payment requirements, interest rates, terms of repayment, initial and closing costs, etc.

—assessment of housing market trends, including prices and characteristics of dwellings entering the market.

—arrangements made for desirable professional assistance.

For further explanation, see the "pre-search phase" of the inserted flow diagram.

SEARCH PHASE

After establishing a foundation of critical knowledge, you can begin the active search phase of home buying with some degree of confidence. It appears (research is incomplete) that consumers spend an average of 2 to 5 months actively searching for a home to buy. The length of the search phase appears to be shorter for prospective buyers in urban areas, buyers considering only older houses (versus both older and new "spec-built" dwellings), individuals who purchase from a friend or relative, consumers experiencing a job transfer, and buyers who moved frequently in the past few years (7, 4). On the average, it appears about 12 houses are entered for inspection during the search phase (7, 4).

The search phase often begins before the prospective buyer has accumulated what he or she feels is an adequate down payment; thus, it appears that most buyers begin actively searching while anticipating they will be financially capable of buying at a later date. IT IS IMPORTANT FOR THE "LOOK-TODAY, AFFORD-IT-TOMORROW" BUYER TO RESIST BEING PRESSURED INTO EXCESSIVE FINANCIAL COMMITMENTS. According to a number of Minnesota mortgage officers, late summer and early fall are traditionally periods when they observe real estate agents encouraging buyers to stretch their financial resources to questionable lengths.[5]

Especially important during the search phase will be the sources of information you use to evaluate the housing market. As indicated in the flow diagram description, sources of information which are both helpful and completely accurate are nearly impossible to find. Research in Minnesota and elsewhere indicates the following sources are perceived by consumers to be (1):

—more helpful but less accurate: (newspaper) advertising and real estate agents.

—less helpful but more accurate: county extension agents, friends, and neighbors.

—both helpful and accurate: bankers or lenders.

For complete information, you will find it necessary to deal with some information sources which are biased, incomplete, and not interested in your best interest. In light of this situation, QUESTION OPINIONS, BELIEFS, AND ORAL PROMISES, ESPECIALLY THOSE STATED BY REAL ESTATE AGENTS AND OTHER REPRESENTATIVES OF THE SELLER. WHENEVER POSSIBLE, CHECK STATEMENTS WITH YOUR OWN ATTORNEY, LENDER, APPRAISER, OR AN INDEPENDENT THIRD PERSON WHO HAS NO PROFIT INTEREST IN YOUR BUYING (BUILDING INSPECTOR, CONTRACTOR, TRADESPERSON, ETC.).

The need for unbiased advice is especially critical when you face two important and highly technical situations:

—assessing the quality and condition of a dwelling's structural, exterior, plumbing, heating, electrical, and interior components.

—negotiating a purchase agreement that adequately and fairly protects your legal interests as the buyer.

Negotiation occurs in nearly every real estate transaction. There are a number of important items to recognize when approaching negotiation:

—oral offers are not legally binding and should be used only to "feel the seller out."

—written offers, in the form of a purchase agreement (see sample in Appendix, figure 1), are the appropriate tool for negotiation and should ALWAYS be reviewed by the buyer's own attorney before being signed.

—the price and terms acceptable to the seller will be influenced by the following factors:

[5]Because a real estate agent's income generally is in the form of a commission based upon the sales price of a house, an agent encourages an individual to stretch his or her financial resources to purchase the highest priced home possible. This situation may be either good or bad for a buyer. If you, as a buyer, cannot meet your repayment obligations along with other living costs, that is definitely undesirable. However, if you can carry this debt and cost load with a reasonable amount of discomfort and if the home appreciates in value, you will gain more when selling. For example, if you purchase a $50,000 versus $40,000 home and they both appreciate at 8 percent per year, your gain (before selling costs are considered) after 5 years will be $4,700 greater.

- how quickly the seller wishes to sell (try to get an idea of the seller's motivation from neighbors).
- how realistic the seller's asking price is (you can obtain an appraisal to help you in this regard or, if the seller obtained a new mortgage when he or she purchased the home, call your county assessor to learn how much the deed transfer tax was when the seller bought the house, multiply the tax times $500, and divide by $1.10 to learn the seller's purchase price).
- the nature of demand for homes similar to the seller's home (demand is traditionally less during July and early August as well as November through early March).
- the type of financing you will use (FHA, MHFA, and VA mortgages are generally more expensive for the seller than other types of financing).
- if a real estate agent is involved, he or she is obligated to present your offer, regardless of terms. Expect the agent to leave the impression that the property is in high demand and to encourage you to offer more favorable terms to the seller. Resist this pressure, remembering it is possible to raise your offer, but nearly impossible to reduce it.
- during negotiation, remain patient and relaxed with a good sense of humor.

For further information, see the "search phase" of the inserted flow diagram.

POST-SEARCH PHASE

After the signing, both the seller and buyer will be expected to initiate the action called for in the purchase agreement. Although "morning-after, second thoughts" commonly afflict buyers, the possibility of a serious mistake will be minimal if you have relied upon sound legal and thorough financial advice. In such situations, financing arrangements usually are completed with no more effort on the part of the buyer than shopping around for the most favorable interest rate, down payment, and term (number of years) requirement, and submitting an application. When a contract for deed or cash purchase is involved, it is critical to proceed under the guidance of the buyer's attorney—an attorney who is knowledgeable about or even specializes in real estate. The advice of an attorney also is desirable if any questions or concerns about the purchase agreement arise.

After the purchase agreement is signed, you are faced with terminating your present housing financial and legal obligations. If you own a house, this step takes on special relevance. The hat is quickly changed from "buyer" to "seller," and you must face new decisions (see *The Home Seller's Guide,* EF 288, and *Selling Your House Yourself,* EF 301). Frequently, a buyer is unable to sell his or her home before "closing" (explained below) on the new home. In such situations, the buyer may wish to negotiate a short-term loan with the lender and/or rent the home on a monthly basis. An incompleted sale by the time of closing is more common in smaller communities, during late fall and winter months, or when mortgage money is "tight" (difficult to obtain).

The last major legal and financial step is closing. This event involves paying the balance of the down payment, closing costs, and prepayment expenses, signing the mortgage and a promissory note, or signing the contract for deed. The location of the closing and the exact sequence of events is influenced by the type of financing, whether or not a real estate or title insurance company is involved, and, to some degree, local custom. If you have not received a detailed explanation prior to the closing of what will occur and exactly what is expected of you, a request for this information should be made. It may be desirable to have your attorney present at the closing, if the purchase has been unusually complicated.

Other Considerations

When you have obtained a basic understanding of the home buying process, you will want to consider the following factors in greater depth: 1) housing needs and wants; 2) housing expenditures and income; 3) initial costs and prepayment expenses; 4) monthly costs; 5) selling costs; 6) obtaining financing; 7) obtaining professional assistance; and 8) sources of information.

HOUSING NEEDS AND WANTS

Above all, a prospective buyer must be sensitive to the needs and desires of household members. Buying a home can be socially and psychologically shattering or fulfilling. Even though people and their relationships are amazingly adaptable, there are limits. Perhaps second only to death, marriage, and divorce, A HOUSING CHANGE IS A STRESSFUL EVENT. But buying a house can be quite positive, if you TAKE THE TIME AND EFFORT TO CAREFULLY ASSESS WHAT MAKES YOU AND YOUR FAMILY SPECIAL AND YOUR HOUSING EXPECTATIONS UNIQUE.

The process of defining your housing expectations, especially in the context of other priorities, is not simple nor necessarily completed in a short period of time. Invest the time and effort to gain greater sensitivity toward your expectations. Do not underrate the value of talking with friends, social workers, trained counselors, and others if your examination reaches an impasse. Give special consideration to the following types of questions:

—In what ways do you want to improve your present living arrangements?

—What do you expect to accomplish by spending so much money and time?

—Is the size of your household likely to change in the foreseeable future? If so, how? Is a child or some other new household member expected, so more interior or exterior space is desired; or is a member leaving for a career or education, so less space is desired?

—What are the activities and interests of household members? What is done alone, together, and with other people? What type of space would reinforce desired activities and interests?

—How will you change in the next few years? As we get older, safety, as well as ability to maintain independence, becomes a greater concern. What features will help or hinder you?

HOUSING EXPENDITURES AND INCOME

Housing costs represent the single largest expenditure and debt encountered by most families. For the first-time buyer, approximately one-third of household income will be consumed for housing. For younger buyers, the difficult choice of having either a house or children may be involved.

It becomes important to weigh what proportion of your income and savings you wish to spend for housing. This analysis is important since housing is only one way a family attempts to achieve a desired life style. Important non-housing financial expenditures also must be recognized—food, clothing, transportation, education, medical care, savings, recreation, and so on.

How much can you comfortably afford to spend? There are several ways to answer this question, including:

RULES OF THUMB—This method is popular because it is easy to use; however, rules of thumb can be misleading, since they do not allow for important considerations of individual differences in employment, savings, debts, family size, interests, and activities.

Some of the more familiar rules of thumb are:

—monthly housing costs should not exceed 25 percent of your dependable gross monthly income.

—the cost of buying a house (sales price) should not be more than two to two-and-one-half times your gross annual income.

—1 percent of the sales price of a house should not be substantially more than 1 week's pay.

—all long term obligations, including payments for mortgage principal and interest, property taxes, property insurance, and other debts involving repayment for more than 1 year, should not exceed 35 percent of your dependable gross monthly income.

CURRENT EXPENDITURES—A better method of determining what you can afford to spend is simply to assess what you currently are paying for housing. Next, determine how much you should increase or, perhaps, decrease the expenditure for the next house you buy.

FAMILY BUDGET—The best method to balance income and housing expenditures involves reviewing the monthly family budget, just as a lender would before approving a mortgage application. Basically a monthly budget includes: 1) itemizing net (take-home) pay, 2) subtracting long-term obligations (debts or installment payments), 3) subtracting proposed housing payments, and 4) comparing the remaining amount with current and anticipated non-housing expenses such as food, clothing, transportation, medical care, education, and insurance savings. For a more complete explanation and work-sheets, see *Balancing Your Housing Needs and Resources,* EF 267.

After assessing your monthly income and determining how much you can afford to spend, recognize the two basic types of housing costs, initial and monthly expenses. Let's examine each of those costs in more detail.

INITIAL COSTS AND PREPAYMENT EXPENSES

These items include any one-time expenses associated with buying and financing a house.

DOWN PAYMENT—With few exceptions, the house buyer will be expected to make a down payment ranging between 5 and 40 percent of the purchase price. The minimum down payment required depends on type of financing (see Appendix, figure 2), age of the house, your ability to repay the loan, local lending practices, and availability of mortgage money. If your savings exceed the minimum down payment required, you may consider making a down payment larger than the minimum. Because there are advantages and disadvantages either way, seriously consider both arguments.

Reasons for making a larger down payment include:

—The larger the down payment, the easier it is to obtain a mortgage when money is tight.

—The interest rate may be slightly lower,

—Thus, the total amount paid for interest will be less.

—You may be able to avoid prepaid mortgage insurance or, indirectly, "points" (explained later).

—Monthly mortgage payments will be lower and/or the term (years) of the mortgage obligation less.

—Equity in the house will build faster.

Reasons for making a smaller down payment include:

—More money is available for other uses, including savings, closing costs, decorating, and moving.

—Interest payments are not subjected to either federal or state income taxes, so after-tax costs will be less.

—Inflation (if it continues) reduces the real costs of future principal and interest payments because future dollars will purchase less.
—Mortgage money is the cheapest money to borrow.
—It may be easier to sell the house in the future, if the buyer is able to assume your mortgage. The less you've paid, the less the next buyer would have to come up with to assume the mortgage. All mortgages, however, are not assumable.

Before making a final decision about the size of the down payment, allow sufficient funds to pay for closing costs, prepayment expenses, and initial costs of making the house a livable home. These expenses will be determined by several key variables:
—the obligations negotiated in the final purchase agreement.
—the equipment, furnishings, and repairs the seller is obligated, by the purchase agreement, to provide.
—the type of financing the buyer obtains, and local "custom" (note: nearly all closing costs and prepayment expenses are negotiable).

CLOSING COSTS—These expenses are dependent upon the costs of obtaining financing and transferring ownership and include:

Origination Fee (also known as "loan processing fee" or "loan application fee")—A fee of $100 or up to 1 percent of the mortgage amount is by "custom" charged to the buyer for a portion of the lender's expense in preparation of mortgage documents, establishing accounts, and obtaining legal guidance.

Appraisal Fee—A fee of $50 to $150 is by "custom" charged to the buyer for the lender's cost of obtaining an appraisal of the house. This appraisal indicates the approximate "market value" of the house and, thus, the security (collateral) the buyer will be able to pledge indicating the mortgage loan is of acceptable risk. If the appraisal indicates the "market value" is less than what the buyer has offered to pay, the lender may refuse to make the mortgage unless the down payment is increased or the purchase price reduced (note: this situation arises most often with FHA, FmHA, MHFA, and VA mortgages). Remember that the lender's appraisal is designed to protect the lender's interest. You may wish to obtain your own appraisal as a condition of the purchase agreement, especially if obtaining a conventional or conventional-insured mortgage, contract for deed, or if paying cash.

Credit Fee—To confirm that the prospective buyer is an "acceptable" credit risk, the lender will request a credit report from local credit bureaus. By custom, the bureaus' charges for these reports are passed on to the buyer. These charges are generally less than $20 for the reports of both the borrower's and co-borrower's credit history.

Title Insurance, Examination, or Search Fee—The lender will want to insure that the buyer obtains a "marketable title;" thus, the lender will do one or more of the following:
—obtain a lender's policy of title insurance and, by "custom," pass on to buyer the charge of approximately $2.50 per $1,000 of the mortgage. You may wish to obtain an "owners" or "fee" policy of title insurance for an additional $1.00 per $1,000 of down payment (note: this amount will be lowest if you obtain a policy when the lender does, or if you obtain a "reissue" policy from the seller's title insurer, if any).
—examine the title abstract and, by "custom," pass on to the buyer the attorney's charge of $30 to $100 (higher if the mortgage amount is higher). When you are obtaining a contract for deed or paying cash, retain your attorney to examine the title, or obtain an owner's policy of title insurance.
—in rare situations, abstract the title or obtain a "Registered Property Abstract" and pass on the costs to the buyer. This action is usually expensive ($100 to $300) and necessary, if the purchase agreement fails to require the seller to provide at his or her own expense an up-to-date abstract of title or Registered Property Abstract.

Deed Recording Fee—The cost (about $10) of recording the buyer's deed with the county recorder is, by "custom," paid by the buyer.

Mortgage Registration Tax—The state mortgage registration tax of $.15 per $100 of mortgage is, by "custom," paid by the buyer.

Survey Charge—When property boundaries are questionable or when large amounts of land are involved, the lender may require a survey to be completed and registered. The charge for the survey, generally $100 or more, may be paid by either the buyer or negotiated as a seller's expense.

Other—There may be additional closing costs depending on the terms negotiated in the purchase agreement and the type and source of financing. For example, you should be represented by your own attorney, if contract for deed financing or cash purchase is involved, and you will have the attorney's fee to pay. You may indirectly encounter some of the seller's costs, especially the agent's commission and "points."[6] A prudent

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[6]A "point" is 1 percent of the mortgage. Points are charged by lenders for FHA, MHFA, and VA mortgages if the maximum interest rate as established by the federal government is artificially low. Points generally range between 1 and 7; vary by lenders and current financing "climate;" and, according to federal statutes, must be paid directly by someone other than the buyer (usually the seller).

seller always will attempt to pass on the cost of selling through a higher selling price (i.e., be less willing to negotiate the selling price, especially for FHA, FmHA, MHFA, VA, and, perhaps, contract for deed financing).

PREPAYMENT EXPENSES—These expenses are directly dependent upon the type of financing the buyer obtains and the date of closing. These prepaid expenses include:

Interest—The amount of interest due between the date of closing and the first mortgage billing. This prepayment expense may range up to 8 weeks of interest.

Property Taxes—Expenses involving property taxes may range from nothing to several thousand dollars. To avoid unpleasant surprises, recognize:

—unpaid (i.e. delinquent) property taxes must be paid before title is transferred and deed recorded. Although the delinquent taxes are the legal obligation of the seller, they may become the buyer's responsibility if so negotiated through the purchase agreement.

—levied property taxes (those that must be paid because of the previous year's assessment) do not have to be paid to transfer the title and record the deed.

—by "custom" in Minnesota, seller and buyer pro-rate property taxes levied and "due and payable". For example, if you as a buyer close on a house on August 1, 1978, the seller by "custom" pays for 7 months of the taxes levied for 1978, including the 6 months "due and payable" on May 31, 1978. As a buyer, you would thus by "custom" be expected to pay the final 5 months of property taxes "due and payable" on October 31, 1978.[7]

—if you "escrow"[8] taxes with your lender, you may be expected to pre-pay 2 months (for November, December) plus any property taxes for the period of time between the closing and first mortgage billing (for August and, perhaps, September).

Despite the "customary" nature of pro-rating property taxes as levied, it is of debatable fairness to the buyer, as well as in conflict with the laws and practices in many states outside of Minnesota.

Property Insurance—The buyer will be required to obtain fire and hazard insurance sufficient to cover the mortgage. Generally, this may be accomplished in one of the following ways:

—obtain and pay for a policy prior to the closing. (Cost for an annual policy is usually about ½ of 1 percent of the purchase price. Shop around—costs vary substantially between companies).

—(if the lender offers) obtain a policy through the lender and pay on a monthly escrow basis. At the closing, the buyer would be expected to prepay the insurance premium due during the period between the closing and first mortgage billing. (Note: federal and state statutes prohibit the lender from requiring that the buyer obtain insurance from a specific firm.)

Credit Life or Mortgage Disability Insurance—Some lenders will encourage buyers to obtain insurance which will completely pay the mortgage in the event the buyer dies or is disabled. Buyers desiring this type of protection should shop around and expect to find substantial differences in the premiums.

Mortgage Insurance—Buyers who are obtaining a "conventional-insured" mortgage will, by "custom", be expected to pay an insurance premium which protects the lender if the buyer defaults on the mortgage. This premium generally ranges from 1½ percent (for down payments of 11 to 20 percent) to 2½ percent (for down payments of 10 percent or less) of the mortgage.

INITIAL DISCRETIONARY EXPENSES—In addition to the down payment, closing, and prepayment costs, you should anticipate additional expenses related to moving and to making the dwelling "liveable" according to your standards. These initial, somewhat discretionary, expenses include: moving costs, utility deposits and connection charges, cleaning, repair, and painting costs, costs of necessary equipment, furniture, and draperies, and costs of purchasing and operating another car, if needed.

ESTIMATION OF MONTHLY COSTS

One advantage of buying an "older" house is that initial monthly costs for taxes, insurance, and utilities can be estimated reasonably. Determining these costs as well as those for principal, interest, and maintenance and repair is important, because the buyer must be able to handle monthly expenses. The monthly costs you will be expected to pay or budget for are:

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[7]Note: In Minnesota, property is assessed in one year and the property taxes are then levied and due and payable in the following year. A prudent buyer *recognizing this situation, will attempt to negotiate a* prorata division of property taxes *assessed* (not due and payable) as of the date of the possession—in other words, obligating the seller to pay property taxes that will be due and payable as a direct result of the seller's occupancy. The desirability of this division is illustrated in a simple example. Assume you bought a house on February 1, 1979, and it burnt to the ground the following day. Here's your property tax obligation:

	If Taxes are Prorated as	
	Due/Payable	Assessed
Property taxes due in 1979 (assessed January 2, 1978)	11 months	0 months
Property taxes due in 1980 (assessed January 2, 1979)	12 months	11 months
TOTAL PROPERTY OBLIGATION	23 months	11 months

For more information about property tax assessment practices, contact your county assessor.

[8]"Escrow" involves paying a certain amount into a special account for subsequent payment to another individual or agency. In mortgage financing, some lenders will offer to collect the homeowner's property taxes and insurance on a monthly basis and to pay these expenses as they become due. The lender's primary motive for offering this service is to protect his or her mortgage lien (i.e. if the lender were forced to foreclose, property taxes would have to be paid first, and if the property were destroyed and inadequately insured, the lender's security would be reduced.

PRINCIPAL AND INTEREST—The monthly mortgage payment for principal and interest will vary according to the amount borrowed, down payment, interest rate, and length (years) of the mortgage. For specific information, ask a mortgage officer about monthly payments.

PROPERTY TAXES—Obtain the specific amount payable for property taxes from the seller. If he quotes the annual taxes due, divide by 12 to obtain the monthly amount. Usually, annual property taxes average 2 to 3 percent ($20 to $30 per $1,000) of the market value of a homesteaded house. Don't forget to ask your county assessor what the estimated market or assessed value of the house is. Because the tax levy is based on this assessed amount, your taxes usually increase when the final sale price is substantially greater.

INSURANCE—To estimate the annual insurance premium for a specific house, ask several insurance agents about various types of policies and coverage. The annual costs of home owner's insurance frequently will be about ½ of 1 percent ($5 per $1,000) of the value insured. Divide the annual premium by 12 to learn the monthly amount that should be budgeted for insurance.

UTILITIES—Obtain and examine the seller's monthly or quarterly utility bills or utility company records for gas, oil, water, sewer, electricity, and trash collection. Often, the annual costs for utilities will be 2 to 3 percent ($20 to $30 per $1,000) of the value of the house, depending on local utility rates, maintenance of the heating system, quality of insulating material and weather-stripping, and life styles.

MAINTENANCE AND REPAIR—Don't overlook maintenance and repair. Usually you should allow at least 1½ percent ($15 per $1,000) of the value of the house per year for normal repair and maintenance as well as for replacement of major equipment, appliances, and other items. You may wish to budget more (i.e., 2 to 3 percent) for maintenance and repair, if the exterior components, equipment, and appliances are 10 years old or older.

TRANSPORTATION—A very important indirect cost to consider is the changing expense of transportation. Will you need another car? Or will you be driving significantly further to work and using more gasoline?

For more information about how these monthly costs may change, review *Housing Costs in the Mid-Seventies,* EF 315.

SELLING (RESALE) COSTS

Prospective buyers frequently overlook the substantial costs of later selling the house they now are considering buying. It may seem strange and out of place to think about the expense of selling a house before it is even purchased; yet, selling costs may directly affect the wisdom of buying. For instance, when a house is sold, it may cost as much as 10 percent of the sales price for the real estate agent's commission, taxes, legal fees, mortgage prepayment penalty, and so on; thus, it is not financially wise for the average person to buy a house unless he or she expects to live in the house at least 2 years.[9] If the house depreciates after the purchase or if the buyer has little equity built up, the period between buying and selling should be more than 2 years.

Obtaining Financing

The purchase of a home for the vast majority of buyers will be dependent upon obtaining financing. The search for financing generally will progress through the following steps:

- —Informal inquiries are made concerning the types of mortgage financing available—down payment requirements, current interest rate, maximum terms (years), and the approximate maximum amount you can expect to borrow. This information does not represent a lender's commitment to make a mortgage; rather, it represents a lender's preliminary, informal estimate of what financing you may qualify for, indicating the price range of homes you should focus upon. Begin your initial inquiry with the institution where you have your savings deposits. If this institution feels no obligation to help its own depositer, you may wish to transfer your savings to another lender who is responsive.
- —Buyers may examine financing alternatives including (see explanation of each alternative in the description of the Post-Search Phase flow diagram):
  - Conventional-Insured mortgages
  - Federal Housing Administration (FHA) mortgages
  - Farmers Home Administration (FmHA) mortgages
  - Minnesota Housing Finance Agency (MHFA) mortgages
  - Veteran's Administration (VA) mortgages
  - Federal Land Bank (FLB) mortgages
  - Assuming the seller's mortgage
  - Obtaining a contract for deed (CD)
  - Paying cash

  Your major objective up to this point is to determine what financing may be most beneficial for

[9]Note: The 2 year minimum reflects the time in which inflation of the home's market value (at the high rate experienced in the mid-1970's) will off-set closing costs, prepayment expenses, initial discretionary costs, and selling costs. Recognize that the 2 year period assumes: 1) the purchase price is not inflated above the home's market value; 2) during the buyer's ownership, the home's value increases at the **average** rate experienced in the mid-1970's (this rate may be less in communities with declining populations; areas undergoing undesirable social, political, or economic changes; if favorable income tax treatments change; or if energy costs change substantially—thus, no one can accurately predict future market values); 3) availability and cost of mortgage money remains favorable; and 4) the buyer, when choosing to sell, is not under duress or pressure to sell quickly.

your situation and, subsequently, approximately what purchase price range (down payment and mortgage amount) is realistic.

—Immediately before submitting an offer to purchase, recontact the lenders with whom you've informally discussed financing. This contact is critical, since mortgage availability, costs, and terms frequently change on a daily or weekly basis and vary between lenders. With the latest information available, you can submit an offer (purchase agreement) with a realistic financing contingency clause (i.e., specifying the type, amount, interest rate, and terms of financing the buyer intends to use).

—Finally, after the purchase agreement has been signed, make your final assessment of financing alternatives, select a lender, and submit a mortgage application. Expect to find variation between lenders, and comparatively re-shop for the most favorable financing.

In the Appendix, figure 2 presents an overview of the characteristics of a number of different types of financing. Figure 3 presents a checklist for use in comparing the sources and types of financing available in your community at the time you approach the purchase decision. Figure 4 presents a mortgage application form used by most financial institutions.

Obtaining Professional Assistance

It is extremely critical for you to seek professional assistance during the buying process. To accomplish this goal: 1) understand that since there is not one individual who is an expert in all facets of home buying, it is desirable to establish a team of professionals to help; 2) be aware that the most readily available and inexpensive sources of professional assistance tend to be more biased, incomplete, and less interested in the buyer's well-being; and 3) be aware that the costs and benefits of assistance from specific professionals will vary according to the individuals' experience as well as the buyer's needs. Some of the professionals who may be helpful to you as a home buyer and the ways to select professional help if you need it follow:

MORTGAGE OFFICERS

Since mortgage officers routinely deal with home buyers, sellers, real estate agents, attorneys, appraisers, and others, they can be especially helpful as the consumer approaches and becomes involved in the home buying process. Research in Minnesota indicates lenders are one of the consumer's most frequently used and respected sources of helpful information (1). There are several reasons consumers respect the lender's assistance:

—The mortgage officer's primary interest is in investing savers' deposits in safe, secure, and profitable ways; thus, the mortgage officer will help the home buyer avoid major over-investment and situations which clearly jeopardize the buyer's (and lender's) security (i.e., structural deficiencies, legal problems, and so on).

—The mortgage officer has both first- and second-hand knowledge of how real estate agents, attorneys, appraisers, and others have served home buyers in the past. Furthermore, the mortgage officer receives no direct financial benefit by recommending other professionals who can serve home buyers.

—The mortgage officer's greatest expertise is in the area of financing; therefore, he or she will be able to assist you in evaluating types of available mortgages, current interest rates, minimum down payment requirements, types and amounts of closing and prepayment costs, and monthly payments. Recognize, however, that the types and costs of available financing will vary between lenders; thus, as a home buyer, you should investigate a variety of sources (see Appendix, figure 2).

To select a lender, consider the following facts as you comparatively shop for mortgage financing:

—Savings and loan associations make the largest share of home mortgages; national and state banks are more likely to make mortgages as a "service" to their own depositors and customers (you, your employer, the seller, the buyer of your existing home); mortgage bankers make their largest share of mortgages through real estate agents.

—Savings and loan associations as well as banks generally prefer to make conventional or conventional-insured mortgages since greater costs, paper-work, and time delays are often involved with FHA, MHFA, and VA mortgages (mortgage bankers are the more predominant sources of FHA, MHFA, and VA mortgages).

—Major lenders, such as those listed above, may not handle certain types of financing attractive to moderate income and rural/small town home buyers such as:

- Farmers Home Administration (FmHA) mortgages with interest rate adjusted to income, available to many moderate income buyers who are purchasing "modest" homes in rural areas and communities with populations of less than 20,000; information is available from the county FmHA supervisor (listed in the phone directory under United States Government agencies).
- Minnesota Housing Finance Agency (MHFA) mortgages with interest rate adjusted according to income, available to many moderate income buyers throughout Minnesota; information available from MHFA, 333 Sibley, St. Paul, Minn. 55101.
- Veteran's Administration (VA) mortgages available to eligible veterans (who have

never used VA mortgages, have paid off previous VA mortgages, or have sold their VA financed home to another eligible veteran) directly through the county VA official, when area lenders do not make VA mortgages (see United States Government agency listings in your phone directory).

- Federal Land Bank (FLB) mortgages, with interest rates which change as the costs of borrowing increase and decrease, available to FLB members in rural areas and small towns with populations under 2,500.

Take the time to explore the sources and types of financing available to you as a home buyer. Select a lender who can offer you the most favorable financing *and sound advice about buying.*

ATTORNEYS

Since buying a home involves important legal ramifications, you should retain an attorney before searching the housing market, before making an offer to purchase, and before paying earnest money. An attorney who specializes in real estate transactions, contracts, and taxes can help you avoid costly legal problems that could later claim your home and savings.

While most homes are bought without legal problems, independent legal advice is insurance that problems will not arise in your unique situation. This advice is most critical when you are ready to submit an offer or when a contract for deed or a cash purchase is involved. The cost of legal services will range from $25 for a simple review of a written offer (purchase agreement) upward, depending on services rendered and fee schedule.

Since expertise, services, and fees vary substantially between attorneys, contact several attorneys to compare what you can fairly expect to receive for an estimated fee (see Appendix, figure 5). Ask mortgage officers, your personal attorney, or your county bar association to recommend attorneys specializing in real estate.

Substantial debate seems to exist about what service you should expect from your attorney. For example, when should you contact your attorney? Should your attorney be at the closing? Should your attorney review the title when a lender requires title insurance? The answers to these questions are influenced by the following considerations:

—THE ADVICE OF YOUR ATTORNEY IS CRITICAL BEFORE A WRITTEN OFFER OR PURCHASE AGREEMENT IS SIGNED. Once a written agreement is signed, you are legally obligated to fulfill the terms of the contract. An attorney can modify the terms of the agreement before it is signed to protect your interests. An experienced real estate attorney can accomplish this protection within an hour, if contacted before the agreement is signed, in contrast to spending days (and charging much more) to remedy problems you may discover after signing the agreement.

—IF YOU ARE USING A CONTRACT FOR DEED, ASSUMING THE SELLER'S MORTGAGE, OR PAYING CASH ENTIRELY, YOUR ATTORNEY SHOULD PARTICIPATE IN THE CLOSING AND, IF YOU ARE NOT OBTAINING TITLE INSURANCE, EXAMINE THE TITLE.

—IF YOU ARE OBTAINING A MORTGAGE, YOU MAY WISH TO HAVE YOUR ATTORNEY EXAMINE THE TITLE, RECOGNIZING THAT THE MORTGAGE LENDER IS REQUIRED BY BANKING LAWS AND REGULATIONS TO MAKE MORTGAGES SECURED BY A CLEAR TITLE. (However, if an error is made, the buyer generally is not protected by the lender's title examination.)

To be assured of clear title, the lender will: 1) have the lending institution's own attorney review the abstract and issue a title opinion; or 2) obtain a lender's policy of title insurance to insure that the title is clear. These services are designed to protect the lender, even though the cost is usually passed on to the buyer; nevertheless, the buyer receives substantial protection. Additional protection seldom can be justified economically.[10] For psychological comfort, however, you may wish to:

- pay your attorney to issue a title opinion. The attorney is thus responsible for informing you if any matter of legal record clouds the title. The attorney is NOT responsible for detecting clouds that are not a matter of legal record and which may arise in the future. If the attorney, through neglect, fails to inform you of clouds which are a matter of legal record, you may sue the attorney or his or her firm, IF the statute of limitations has not expired, IF the attorney or firm can be found, and IF the attorney or firm is solvent.
- purchase an owner's policy of title insurance. This insurance has a one time cost of $3.50 per $1,000 of insurance plus an approximate service charge of $70. If an owner's policy of title insurance is obtained at the same time a lender obtains a policy, the costs will be similar ($1 for the owner's policy plus $2.50 for the lender's policy and the $70 "service" charge, all of which are customarily paid by the buyer). The service charge may be reduced if the buyer's or lender's attorney issues a title opinion.

[10]The degree to which the buyer's interest is protected is reflected by the United States Department of Housing and Urban Develoment's guidelines for FHA (and FmHA, MHFA, and VA) mortgages: "...One of the following types of title evidence...is satisfactory...1) Fee or owner's title policy...2) Mortgagee's policy of title insurance...3) Abstract and legal opinion..." (13:12-18). In other words, *any one* of these methods is acceptable to the federal government for mortgages involving up to 100% of the purchase price.

The owner's policy of title insurance protects the owner against loss of the insured equity (i.e., down payment, generally not the equity occurring because of inflation or mortgage repayment) if there is a claim of ownership arising during the buyer's ownership — whether the claim should have been discovered through a title search or was a matter that could not be identified through public record (e.g., forgery of a deed, deed signed by a minor or mentally incompetent person, missing heirs of a former owner, deeds signed by persons secretly married or not legally divorced, documents incorrectly filed or recorded, etc.).

BEFORE OBTAINING TITLE INSURANCE, RECOGNIZE THAT A TITLE INSURANCE COMPANY'S PRIMARY INTEREST IS TO PREVENT LOSS RATHER THAN REIMBURSE LOSS (THE SAME FUNCTION AS A BUYER'S OR LENDER'S ATTORNEY). A FEDERAL TRADE COMMISSION ATTORNEY, CITING A 1971 STUDY BY SENATOR PROXMIRE'S STAFF, UNDERSCORES THAT TITLE INSURANCE IS A MISNOMER, SINCE TITLE INSURANCE COMPANIES PAY ONLY 2½ PERCENT OF THEIR PREMIUMS FOR CLAIMS (6:652 and 5:84). THIS CLAIM RATE IS EQUAL TO PAYMENTS TO ABOUT ONE OF EVERY 88,000 OWNERS OR LENDERS WITH TITLE INSURANCE POLICIES.[11]

REAL ESTATE AGENTS

Although a substantial majority of "older" home buyers make their purchases, willingly or unwillingly, through a real estate agent (about 65 percent in rural areas and 85 percent in urban areas), a smaller proportion of buyers rely upon an agent to help them search the market and to negotiate a purchase (7:10 and 1). Research in Minnesota indicates consumers do not hold a strong favorable impression of real estate agents (9:11 and 1). Nevertheless, real estate agents can be of great help to home buyers who understand what information an agent can and cannot provide. When considering the assistance of an agent, recognize the following facts.

—The real estate agent's greatest expertise is in three areas:

- Awareness of most of the "older homes" currently for sale. In larger communities, the majority of homes listed by agents are communicated to other agents through a Multiple Listing Service (MLS). By working through an agent whose firm is an MLS member, the buyer has access to detailed price, location, and feature data beyond that found in newspaper advertising or other sources of information. MLS information is not complete; it does not list homes for sale by owner nor homes listed by an agent on an exclusive basis. Furthermore, homes in high demand areas frequently sell before the MLS distributes information to agents.
- Communicating on behalf of the buyer. The buyer's agent can handle the sometimes emotional process of arriving at a purchase agreement. Recognize that the agent's primary motive is to get a purchase agreement signed (that is the way he or she receives a commission). However, also recognize that the agent is legally the representative of the seller, and the more you pay for a house, the larger his or her commission.
- Awareness of sources and types of financing. Because of a full-time agent's frequent contact with buyers, he or she will have a good, working, although not necessarily complete, knowledge of the mortgage market. The agent frequently can simplify your search for financing.

—The real estate agent may be able to help (but generally does not have expertise) in the following areas:

- as an attorney representing the best interests of the buyer.
- as an engineer or building inspector knowledgeable about the structural and mechanical quality of the house.
- as an independent appraiser who can offer unbiased advice to the buyer as to the "true market value" of the house.
- as an architect or contractor who is knowledgeable about the feasibility and costs of improvements.

A good agent will advise you concerning the limits of his or her expertise and recommend that questions or needs beyond these limits be addressed to another professional.

To select an agent, carefully evaluate the agent in terms of the following (see Appendix, figure 6):

—Recommendations—mortgage officers and attorneys specializing in real estate transactions are excellent sources of information. Friends, neighbors, and business associates also may be helpful on a more limited, personal experience basis. Remember, an agent seldom refers anyone to dissatisfied clients if asked for references.

—Reputation—check to see if the agent has been the subject of complaints through the Better Business Bureau, Local Board of Realtors, or Minnesota Real Estate and Securities Division.

—Experience—an agent who has been in business full-time for a number of years will more likely be accessible if questions or problems arise.

[11]This claim rate has been calculated by multiplying the premium-insured ratio ($3.50/$1000) by the claim payment ratio (2.51%). This rate excludes the legal cost the title insurer may have expended to defend client's title.

—Licensed—all real estate agents in Minnesota must be licensed.
—Membership in a professional association (i.e., Realtor)—indicating the agent's support of ethical and professional standards.
—Specialized—an agent specializing in the neighborhood, price range, and type of home you're interested in may be able to serve you more effectively.

When working with an agent, be honest about what you can afford to spend and what you are looking for. Likewise, as a prospective buyer, realize you are entitled to a complete, accurate, fair, and honest representation of all facts presented by the agent. Opinions, of course, may be something else. Consequently, you should ask specific questions for which there are factual answers. The agent who does not accurately present factual information may lose his or her license to sell real estate and be liable for misrepresentation.

APPRAISERS

A real estate appraiser can be especially helpful if you desire an accurate estimate of the "true market value" of a house you are seriously considering. This estimate, most valuable if you suspect the seller has overpriced the house, is generally determined in two ways: 1) the "market" or "comp" (comparable) approach, which takes into account the sales prices of similar houses; and 2) the "cost" approach, which takes into account the costs of buying a similar lot and building a similar house (minus depreciation). Remember, however, the appraiser considers quality and soundness of constructions only as it may visibly affect value; he or she does not make a detailed evaluation of quality or structural and mechanical soundness.

It is especially important to recognize that an independent, professional fee-appraiser can serve your interests as a buyer more effectively than a real estate agent or another member of the agent's firm who has a financial interest in a sale. Since there are no licensing requirements for appraisers in Minnesota, exercise care in selecting an appraiser (see Appendix, figure 7). The quality and reliability of appraisals vary substantially. A lender usually can help you identify the most helpful appraisers in the community.

Generally, the most effective way to involve an appraiser is after you have signed a purchase agreement containing a clause similar to (see your attorney for exact wording) "...offer is contingent upon an estimated market value of not less than $XXXX obtained by an independent, fee-appraiser selected by the buyer..." If you are obtaining an FHA, FmHA, MHFA or VA mortgage, an appraisal is automatically required. The cost of an appraisal generally will be $50 to $60 for an FHA, MHFA, or VA appraisal and upward, depending on services rendered (FmHA appraisals are free).

HOME INSPECTORS

To avoid unpleasant structural or mechanical problems, you may wish to have a professional inspector evaluate the home. Actually, there are a number of professionals who can offer somewhat similar services in this respect:

MUNICIPAL INSPECTORS—If you are purchasing a home in a large community which has a "housing code," you may wish to involve a local housing inspector in one of two ways:

—in an official, enforcement capacity, simply by inserting a clause in the purchase agreement similar to (see your attorney for exact wording) "... this offer is contingent upon seller furnishing evidence of code compliance at the closing." This clause obligates the seller to request and pay (about $50) for an inspection and to remedy any deficiencies not meeting local housing code standards.
—in a non-official, non-enforcement capacity similar to that described for private fee inspectors (i.e., municipal inspector serving on a fee-basis beyond normal official duties).

PRIVATE FEE INSPECTORS—In most areas of Minnesota, private practicing engineers, contractors, or individuals knowledgeable about construction will thoroughly inspect a house for a fee (generally $50 to $150, depending on driving distance and services rendered). Following the inspection, the home buyer will receive a listing of deficiencies. This listing is most valuable if the buyer has signed a purchase agreement with a clause similar to (see your attorney for exact wording) "...this offer is subject to a satisfactory report of condition by an independent inspector selected by the buyer..." If the inspector's report indicates deficiencies, you may wish to renegotiate a lower purchase price. To locate a private fee inspector, look in the yellow pages of the phone directory under "Home Inspection."

MUNICIPAL EVALUATORS—In Minneapolis and several other Minnesota communities, local "truth-in-housing" ordinances require the seller to furnish a report by a licensed "municipal evaluator". Some lenders may require another inspection, since widespread doubts seem to exist about the thoroughness of reports by "municipal evaluators".

To select inspection services (see Appendix, figure 8) recognize: 1) a private fee inspector will be most thorough and identify any apparent problems, even those not covered by a local housing code; 2) if you are obtaining an FHA, FmHA, MHFA, or VA mortgage, an inspection similar to a "code compliance" inspection will be completed and the seller will be required to correct deficiences prior to closing; 3) for other types of financing, an inspection will not occur unless you require one as a condition of the purchase agreement or an "evaluation" report is required by local ordinances.

Sources of Further Information

There are a variety of sources available to help answer your questions and provide information. These sources include:

LOCAL PUBLIC LIBRARIES—The community library is probably your best source of unbiased information about buying and remodeling. Even in smaller communities, interlibrary loans bring a wealth of information to the consumer. Recognize, however, that many library references will be dated or otherwise not specifically applicable to Minnesota's climatic, legal, and housing market situation. It is important to be selective and thorough in your library search. Remember not to overlook recent issues of popular home magazines and U.S. Government Printing Office publications.

COUNTY EXTENSION SERVICE—Funded in part by the University of Minnesota, this unit of county government provides many relevant consumer-oriented references and noncredit short courses on home buying, remodeling, building, and selling. Stop at your county extension office and ask:

—for free copies of housing publications to meet your specific needs;

—to review the Housing Handbook, a collection of more than 220 popular consumer housing references;

—to review the county's listing of 2,500 consumer housing references available free or at a modest cost from over 400 organizations; and

—what short courses and workships are available on housing.

COMMUNITY EDUCATION—Many of Minnesota's school districts offer adult evening courses in buying, building, remodeling, and selling. These courses frequently are taught by one practicing professional who may reflect a specific professional bias. Call school districts in your area to see what courses may be offered, and who is teaching the courses.

COMMUNITY DESIGN CENTER (CDC)—Low- and moderate-income families may wish to seek remodeling design assistance from CDC, 118 East 26 Street, Minneapolis. CDC also maintains an extensive home improvement and do-it-yourself library.

LOCAL HOUSING AND REDEVELOPMENT AUTHORITIES (LHRA)—LHRA's, especially in larger communities, have services available to home buyers and remodelers, including: information about low-interest loans and grants; lists of approved remodeling contractors; free inspection and planning services in target neighborhoods; etc.

VOCATIONAL TECHNICAL SCHOOLS—For individuals desiring to do their own wiring, plumbing, or other remodeling work, courses offered by area voc-tech schools offer an excellent opportunity to perfect skills.

MATERIAL SUPPLIERS—Many retail material suppliers, such as lumberyards and plumbing fixture outlets, offer relevant workshops, do-it-yourself publications, and individual consultation. They also can refer a buyer to contractors who can inspect a dwelling before buying and estimate remodeling costs.

HISTORICAL SOCIETIES—Both the Minnesota Historical Society and county historical societies can help the buyer research the architectural history of a home and suggest other sources of information especially helpful in restoration.

NEIGHBORHOOD ORGANIZATIONS—In addition to being excellent sources of information (12:116), community or neighborhood organizations have a positive influence on improved housing quality and values. In many communities, residents have organized to help each other in the maintenance and upgrading of entire neighborhoods, lobbied for improved municipal services, and obtained material and labor discounts for work contracted for several homes at the same time, etc.

TRADE ASSOCIATIONS—Although biased by their desire to promote their own trade, associations can provide information about their products as well as members providing specific types of service. Examples of trade associations include: (addresses found in Minneapolis and St. Paul phone directories):

—Home Builders Association (HBA)—in larger communities can provide information about remodeling contractors.

—Minnesota Association of Plumbing, Heating and Cooling Contractors (MAPHCC)—can provide information about members doing plumbing and hot water and steam radiant heating work.

—Minnesota Association of Concrete and Masonry Contractors (MACMC)—can provide information about masonry contractors.

—Minnesota Electrical Association (MEA)—can provide information about electrical contractors and suppliers.

—Minnesota Masonry Institute (MMI)—can provide information about concrete, block, brick, and stone suppliers and masonry contractors.

—Minnesota Society of Architects (MSA)—can provide a list of architects doing specialized inspection and remodeling design work.

—Sheet Metal, Air Conditioning, and Roofing Contractors Association (SMARCA)—can provide a list of members specializing in forced-air heating systems.

UTILITY SUPPLIERS—Most electrical and fuel suppliers are anxious to provide information about energy conservation questions, such as those involving insulation, storm windows, weatherstripping, etc.

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Appendix

Figure 1
Purchase Agreement

PURCHASE AGREEMENT

.... Minn., August 15, , 1978.

RECEIVED OF John A. Smith and Goldberry T. Pillsbury

the sum of One Thousand and no/100 ----------------------------($ 1,000.00) DOLLARS

Personal Check .... as earnest money and in part payment for the purchase of property at
(Check, Cash or Note — State Which)

4321 Boardwalk Avenue .... situated in the

County of Vacuum.., State of Minnesota, and legally described as follows, to-wit:

Lot 7, Block 2 West Anywhere Parkway Addition

including all garden bulbs, plants, shrubs and trees, all storm sash, storm doors, detachable vestibules, screens, awnings, window shades, blinds (including venetian blinds), curtain rods, traverse rods, drapery rods, lighting fixtures and bulbs, plumbing fixtures, hot water tanks and heating plant (with any burners, tanks, stokers and other equipment used in connection therewith), water softener and liquid gas tank and controls (if the property of seller), sump pump, television antenna, incinerator, built-in dishwasher, garbage disposal, ovens, cook top stoves and central air conditioning equipment, if any, used and located on said premises and including also the following personal property:

refrigerator, children's swing set

all of which property the undersigned has this day sold to the buyer for the sum of:

Forty Thousand and no/100-----------------------------------($ 40,000.00) DOLLARS,

which the buyer agrees to pay in the following manner:

Earnest money herein paid $ 1,000.00 and $ 9,000.00, cash, on October 28, 1978, the date of closing.

$30,000 by buyer placing a conventional mortgage in this amount amortized monthly over a period of 29 years with interest thereon at 9½ percent per annum. Application for mortgage is to be made immediately upon acceptance. In the event the buyers cannot secure the above mortgage before September 15, 1978, this agreement shall become null and void at sellers option and the earnest money paid herein shall be refunded minus any expense for appraisal and credit report.

Subject to performance by the buyer the seller agrees to execute and deliver a ------------------------------ Warranty Deed (to be joined in by spouse, if any) conveying marketable title to said premises subject only to the following exceptions:
(a) Building and zoning laws, ordinances. State and Federal regulations.
(b) Restrictions relating to use or improvement of premises without effective forfeiture provision.
(c) Reservation of any minerals or mineral rights to the State of Minnesota.
(d) Utility and drainage easements which do not interfere with present improvements.
(e) Rights of tenants as follows: (unless specified, not subject to tenancies)

The buyer shall pay the real estate taxes due in the year 19 79 and any unpaid installments of special assessments payable therewith and thereafter. Seller warrants that real estate taxes due in the year 19 79 will be Full homestead classification
(full, partial or non-homestead — state which)

Neither the seller nor the seller's agent make any representation or warranty whatsoever concerning the amount of real estate taxes which shall be assessed against the property subsequent to the date of purchase.

Seller covenants that buildings, if any, are entirely within the boundary lines of the property and agrees to remove all personal property not included herein and all debris from the premises prior to possession date. SELLER WARRANTS ALL APPLIANCES, HEATING, AIR CONDITIONING, WIRING AND PLUMBING USED AND LOCATED ON SAID PREMISES ARE IN PROPER WORKING ORDER AT DATE OF CLOSING.

The seller further agrees to deliver possession not later than November 1, 1978 provided that all conditions of this agreement have been complied with. Unless otherwise specified this sale shall be closed on or before 60 days from the date hereof.

In the event this property is destroyed or substantially damaged by fire or any other cause before the closing date, this agreement shall become null and void, at the purchaser's option, and all monies paid hereunder shall be refunded to him.

The buyer and seller also mutually agree that pro rata adjustments of rents, interest, insurance and city water, and in the case of income property, current operating expenses, shall be made as of November 1, 1978

The seller shall, within a reasonable time after approval of this agreement, furnish an abstract of title, or a Registered Property Abstract certified to date to include proper searches covering bankruptcies, and State and Federal judgments and liens. The buyer shall be allowed 10 days after receipt thereof for examination of said title and the making of any objections thereto, said objections to be made in writing or deemed to be waived. If any objections are so made the seller shall be allowed 120 days to make such title marketable. Pending correction of title the payments hereunder required shall be postponed, but upon correction of title and within 10 days after written notice to the buyer, the parties shall perform this agreement according to its terms.

If said title is not marketable and is not made so within 120 days from the date of written objections thereto as above provided, this agreement shall be null and void, at option of the buyer, and neither principal shall be liable for damages hereunder to the other principal. All money theretofore paid by the buyer shall be refunded. If the title to said property be found marketable or be so made within said time, and said buyer shall default in any of the agreements and continue in default for a period of 10 days, then and in that case the seller may terminate this contract and on such termination all the payments made upon this contract shall be retained by said seller and said agent, as their respective interests may appear, as liquidated damages, time being of the essence hereof. This provision shall not deprive either party of the right of enforcing the specific performance of this contract provided such contract shall not be terminated as aforesaid, and provided action to enforce such specific performance shall be commenced within six months after such right of action shall arise.

It is understood and agreed that this sale is made subject to the approval by the owner of said premises in writing and that the undersigned agent is in no manner liable or responsible on account of this agreement, except to return or account for the earnest money paid under this contract.

The delivery of all papers and monies shall be made at the office of: ....

....

I, the undersigned, owner of the above land, do hereby approve the above agreement and the sale thereby made.

X John Paul Jones (SEAL)
Seller

X Betty Rose Jones (SEAL)
Seller

....

By .... Agent

I hereby agree to purchase the said property for the price and upon the terms above mentioned, and subject to all conditions herein expressed.

John A. Smith (SEAL)
Buyer

Goldberry T. Pillsbury (SEAL)
Buyer

Figure 2
Minnesota Sources and Types of Financing (January, 1978)

TYPES OF FINANCING—DESCRIPTION	MAXIMUM TERM	MINIMUM DOWN PAYMENT	INTEREST RATE	FEATURES
CONVENTIONAL—the most common type of mortgage; made directly between the lender (mortgagee) and buyer (mortgagor); availability and terms influenced by the supply and demand for mortgage money, subject to federal and state banking regulations; generally lowest closing costs (except for FmHA) and fastest processing time from application; for information, contact Savings and Loan, Mortgage Banker, Bank, or Credit Union.	30 year or remaining economic life of house.	20% of appraised value (generally higher in rural areas, when loan funds are less available).	8⅞ to 9¼% (generally lowest with higher downpayment and newer house).	lower closing costs. fastest processing time.
CONVENTIONAL-INSURED—the most common type of mortgage when downpayments range from 5 to 19%; same characteristics as "conventional" except consumer (usually buyer) pays a premium to a private company at closing ranging from ½ to 1% of the mortgage along with a ¼% premium per year or a one-time premium of 1⅞% to 2½% to insure the lender against possible financial loss if the buyer defaults on mortgage repayment; for information, contact Savings and Loan, Mortgage Banker or Bank.	30 years or remaining economic life of house.	5% of appraised value.	9 to 9¼%.	lower closing costs. fastest processing time.
FARMERS HOME ADMINISTRATION (FmHA)—mortgages available to moderate income buyers in non-urban areas and communities with populations under 20,000 when reasonable credit is not available from other sources for purchasing a modest, but decent home; lowest closing costs (about $200); application processing time may be slow; for information, contact county FmHA supervisor.	33 years or remaining economic life of house (appraised value).	0% of appraised value.	1 to 8% depending on income (dependable gross income minus 5% and minus $300 for each minor equals adjusted income, not exceeding $15,000)	prepayment without penalty. lowest interest rate possible. lowest closing costs. slower processing time.
FEDERAL HOUSING ADMINISTRATION (FHA)—the most common type of mortgage when downpayment is less than 10%; obtained through local lender; buyer pays a ½% insurance premium to FHA monthly to insure the lender against possible financial loss if the buyer defaults on mortgage repayment; generally highest closing costs and slowest processing time from application; for information contact Savings and Loan, Mortgage Banker, Credit Union, or Bank.	30 years or ¾ of remaining economic life.	3% of first $60,000	8½ plus ½% monthly mortgage insurance premium.	prepayment with minimum penalty (30 days interest). liberal assumption policy. slowest processing time.
MINNESOTA HOUSING FINANCE AGENCY (MHFA)—mortgages available (according to legislative appropriations, authorizations, and guidelines) to moderate income buyers with adjusted income below $16,000 (dependable gross income minus $750 for each—up to 2—adult members, minus $750 for second (e.g., spouse) income earner and $500 per each minor dependent); obtained through participating local lenders; buyer must obtain FHA or VA mortgage; state pays interest rate down to 7¼; characteristics same as FHA and VA mortgages; for information contact Savings and Loan, Mortgage Banker, Bank, or MHFA (333 Sibley, St. Paul 55101).	same as FHA or VA.	same as FHA or VA.	7¼% plus ½% monthly mortgage insurance premium if FHA insured.	same as FHA or VA. lower interest rate. slowest processing time.

Figure 2 (continued)

VETERANS ADMINISTRATION (VA)—mortgages available to qualified veterans and unmarried widows of veterans; may be obtained through local lender or directly from VA if not available locally, VA guarantees lender against losses up to $17,500 or 60%, whichever is less, of loan amount if buyer defaults on repayment—thus, by practice, lenders will limit VA mortgages to $70,000 and generally less when there is no downpayments (when obtained directly from VA, the maximum is $25,000); closing costs and processing time similar to FHA; for information, contact county VA service officer, Savings and Loan, Mortgage Banker, Credit Union, or Bank.	30 years or ¾ of remaining economic life.	0%.	8½%	prepayment without penalty. liberal assumption policy. slower processing time, unless lender is authorized to grant automatic approval.
CONTRACT FOR DEED (CD)—loan negotiated between seller and buyer; buyer agrees to pay seller a predetermined amount in return for using the dwelling; upon completion of the contract, the seller promises to give the buyer the deed; minimum processing time and closing costs required; for information, contact an attorney.	unlimited, as negotiated with seller	0%, or as negotiated with seller	same as maximum conventional interest or less, as negotiated with seller.	maximum flexibility. buyer has less protection than mortgage financing. legal advice is critical.
MORTGAGE ASSUMPTION—if the seller has a lower interest mortgage with a substantial balance to repay, it may be in the best interests of the buyer to assume the seller's mortgage (i.e. assume the seller's obligation to repay); generally, the buyer will have to submit an application to the seller's lender and pay a modest "assumption fee"; for information, contact the seller's lender.	balance of seller's mortgage.	difference between purchase price and mortgage balance	same as seller's mortgage	lower interest rate possible.

SOURCES OF FINANCING*—DESCRIPTION

SAVINGS AND LOAN ASSOCIATIONS—the largest source of mortgages; especially in urban areas; predominately make conventional and conventional-insured although also authorized to make FHA, MHFA, and VA mortgages; authorized to lend up to 95% of home's value with a maximum $42,000 mortgage and up to 90% home's value with a maximum mortgage of $55,000; required by law to obtain mortgage insurance on mortgages at 90% or more of value, by practice lender will require mortgage insurance on mortgages between 80 and 90% of value; generally charge prepayment penalties for conventional and conventional-insured loans paid early (i.e. sale of home); generally charge assumption fees or increase interest rate if conventional or conventional-insured mortgage is assumed; generally more liberal in considering buyer and property qualifications than commercial banks.

MORTGAGE BANKERS—predominately make all types of mortgages, especially FHA, MHFA, and VA mortgages; also make conventional and conventional-insured mortgages when maximum state usury rates permit out-of-state investor to profitably invest in Minnesota; similar to Savings and Loan Associations in other aspects: authorized loan limits, mortgage insurance requirements, assumption and prepayment limitations, and more liberal in considering buyer and property qualifications than commercial banks.

(MUTUAL SAVINGS) BANKS—there is only one mutual savings bank in Minnesota: Farmers and Mechanics (F&M) Savings Bank of Minneapolis: similar to Savings and Loan Association, predominately make conventional and conventional-insured mortgages as well as some FHA, MHFA, and VA mortgages; similar to Savings and Loan Associations in other aspects although will lend larger amounts to highly qualified buyers.

(COMMERCIAL) BANKS — predominately make conventional mortgage as a service to their depositers, although also authorized to make conventional-insured, FHA, MHFA, and VA mortgages; authorized to lend up to 90% of home's value: by practice will require mortgage insurance on mortgages between 80 to 90% of value; generally do not charge prepayment penalties for conventional or conventional-insured mortgages; assumption policy same as Savings and Loan; generally more conservative (require higher downpayments and offer shorter term or years) than Savings and Loans in lending practices although will lend larger amounts to highly qualified buyers.

CREDIT UNIONS—larger credit unions make conventional, FHA and VA mortgages to their depositer; availability and terms vary, although terms are generally similar to those available through Savings and Loan Associations.

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*NOTE—There are some minor variations between state chartered (e.g. Washington *State* Bank) and nationally chartered (e.g. Washington *National* Bank) financial institutions. These differences generally do not affect the home buyer.

Figure 3
Mortgage Financing Comparison

> Note: The following items are designed to help you evaluate mortgage financing alternatives. Since the availability and terms of mortgages frequently change, mortgage officers will be able to furnish only "good-faith estimates" of what you may encounter when you finally are ready to submit an offer on a house. Therefore, when you are ready to submit an offer, verify earlier estimates.

ANSWERS (circle or complete)		ITEM (consider)
		—Before you contact a mortgage officer, complete figure 4.
$________		•what is your dependable gross monthly income (combine spouse's income if applicable)?
$________		•what is the cash or market value of all assets?
$________		•*what is the unpaid balance of all liabilities and debts?*
$________		•what is your net worth (assets minus debts)?
$________	(________%)	•what is the amount of your monthly debt payments (what percentage of your gross income does this represent)?
Yes	No	—Do you realize that buying a house is only one way a family attempts to obtain a desirable lifestyle?
Yes	No	—Have you determined how much you can comfortably afford to spend for a house? (See Extension Folder 267, *Balancing Your Housing Needs and Resources*.)
$________	(________%)	•How much per month do you feel you can spend for principal, interest, taxes, insurance, utilities, and maintenance (what pecentage of your gross income does this represent)?
		•How much have you budgeted for initial and related costs associated with buying, including:
$________		—down payment?
$________		—closing and initial financing costs?
$________		—attorney's fee?
$________		—inspection fee?
$________		—moving costs?
$________		—utility deposits?
$________		—cleaning and repairing the house?
$________		—furniture and equipment expenses if needed?
$________		—costs of buying another automobile if needed?
$________		•What are total estimated initial and related costs? (add above items)
Yes	No	•Will you be able to maintain sufficient savings and investments to protect against costly emergencies?
Yes	No	—Have you visited at least three mortgage officers to gain an understanding of the varying availability and terms of financing?
Yes	No	—Have you considered alternatives to conventional mortgages such as FHA, FmHA, MHFA, and VA mortgages?
Yes	No	—Have you contacted at least one mortgage officer with a savings and loan association as well as an officer of your bank?
		—For your reference, list the names of the officers you have seen, their phone numbers, and the firms they represent.

NAME	LENDING INSTITUTION	PHONE
1.		
2.		
3.		

Figure 3 (continued)

LENDER 1			LENDER 2			LENDER 3			
									— Now you are ready to compare the types of financing available.
Yes		No	Yes		No	Yes		No	— Does the lender feel that your estimate of the down payment, proposed monthly payments, and allowance for initial and related costs are realistic?
Conventional or Conventional-Insured	FHA or VA (if eligible)	Other (Specify)	Conventional or Conventional-Insured	FHA or VA (if eligible)	Other (Specify)	Conventional or Conventional-Insured	FHA or VA (if eligible)	Other (Specify)	— Are the following types of financing available? if so, complete the questions listed after each type.
____%	____%	____%	____%	____%	____%	____%	____%	____%	— Minimum down payment required?
____%	____%	____%	____%	____%	____%	____%	____%	____%	— Interest rate?
____yrs	____yrs	____yrs	____yrs	____yrs	____yrs	____yrs	____yrs	____yrs	— Maximum length in years?
									— Approximate mortgage amount you can borrow if you have:
$____	$____	$____	$____	$____	$____	$____	$____	$____	• a minimum down payment for the maximum number of years?
$____	$____	$____	$____	$____	$____	$____	$____	$____	• a higher down payment (of say 25%) for the maximum number of years?
									— Approximate monthly income the lender will expect you to earn if you borrow the maximum amount possible and make:
$____	$____	$____	$____	$____	$____	$____	$____	$____	• a minimum down payment for the maximum number of years?
$____	$____	$____	$____	$____	$____	$____	$____	$____	• a higher down payment (of say 25%) for the maximum number of years?
									— Which of the following closing costs will you, as the buyer, be expected to pay for this type of financing?
$____	$XXXX	$____	$____	$XXXX	$____	$____	$XXXX	$____	• initial mortgage insurance fee (conventional-insured).
$____	$____	$____	$____	$____	$____	$____	$____	$____	• loan application, origination, or processing fee.
$____	$____	$____	$____	$____	$____	$____	$____	$____	• bank's attorney fee or title insurance charge.
$____	$____	$____	$____	$____	$____	$____	$____	$____	• bank's, FHA, MHFA, or VA appraisal.
$____	$____	$____	$____	$____	$____	$____	$____	$____	• Other (specify)________________ ________________
$____	$____	$____	$____	$____	$____	$____	$____	$____	• TOTAL closing costs

Figure 4
Loan Application Form

RESIDENTIAL LOAN APPLICATION

MORTGAGE APPLIED FOR	XX Conventional / FHA / VA	Amount	Interest Rate	No. of Months	Monthly Payment Principal & Interest	Escrow (impounds (to be collected monthly)
	XX Conventional	$ 30,000	9.5	348	$253.83	XX Taxes [ ] Hazard Ins. [ ] Mtg. Ins. [ ]

Prepayment Option

SUBJECT PROPERTY

Property Street Address	City	County	State	Zip	No. Units
4321 Boardwalk Avenue	Vacuum	Vacuum	Minn.	55100	1

Legal Description (Attach description if necessary): Lot 7, Block 2, West Anywhere Addition — Year Built

Purpose of Loan: XX Purchase [ ] Construction-Permanent [ ] Construction [ ] Refinance [ ] Other (Explain)

Complete this line if Construction-Permanent or Construction Loan: Lot Value Data — Year Acquired ___ Original Cost $ ___ Present Value (a) $ ___ Cost of Imps. (b) $ ___ Total (a + b) $ ___ ENTER TOTAL AS PURCHASE PRICE IN DETAILS OF PURCHASE.

Complete this line if a Refinance Loan: Purpose of Refinance — Describe Improvements [ ] made [ ] to be made

Year Acquired | Original Cost $ | Amt. Existing Liens $ — Cost: $

Title Will Be Held In What Name(s): John A. Smith and Goldberry T. Pillsbury H/W — Manner In Which Title Will Be Held: joint tenants

Source of Down Payment and Settlement Charges: savings

This application is designed to be completed by the borrower(s) with the lender's assistance. The Co-Borrower Section and all other Co-Borrower questions must be completed and the appropriate box(es) checked if [ ] another person will be jointly obligated with the Borrower on the loan, or [ ] the Borrower is relying on income from alimony, child support or separate maintenance or on the income or assets of another person as a basis for repayment of the loan, or [ ] the Borrower is married and resides, or the property is located, in a community property state.

	BORROWER	CO-BORROWER
Name	John A. Smith	Goldberry T. Pillsbury
Age	26	25
School Yrs	16	18
Present Address — No. Years	[ ] Own XX Rent	[ ] Own [ ] Rent
Street	1234 St. Charles Place	Same as borrower
City/State/Zip	Vacuum, Minnesota 55100	
Former address if less than 2 years at present address — Street	14A Hobbit Road	6 Prancing Horse
City/State/Zip	Shire, New England 99999	Bree, New England 99999
Years at former address	4 years [ ] Own XX Rent	2 years [ ] Own XX Rent
Marital Status	XX Married [ ] Separated [ ] Unmarried (incl. single, divorced, widowed)	[ ] Married [ ] Separated [ ] Unmarried (incl. single, divorced, widowed)
Name and Address of Employer	Pillsbury Bun Company, 100 Wall Street, Mill City, Minnesota 55000	Johnson & Johnson, Attorneys at Law, 200 Court Street, Vacuum, Minnesota 55402
Years employed in this line of work or profession?	1 years	3 years
Years on this job	1	
Self Employed*	[ ]	[ ]
Position/Title	Vice-President 4th Assoc.	Attorney
Type of Business	Baking Buns	Law
Social Security Number*** / Home Phone / Business Phone		

GROSS MONTHLY INCOME

Item	Borrower	Co-Borrower	Total
Base Empl. Income	$ 1000.00	$1200.00	$2200.00
Overtime			
Bonuses			
Commissions			
Dividends/Interest			
Net Rental Income			
Other† (Before completing, see notice under Describe Other Income below.)			
Total	$1000.00	$1200.00	$2200.00

MONTHLY HOUSING EXPENSE**

	PRESENT	PROPOSED
Rent	$200.00	
First Mortgage (P&I)		$254.00
Other Financing (P&I)		
Hazard Insurance	4.00	15.00
Real Estate Taxes		60.00
Mortgage Insurance		
Homeowner Assn. Dues		
Other		
Total Monthly Pmt.	$ 204.00	$329.00
Utilities		50.00
Total	$	$379.00

DETAILS OF PURCHASE

a. Purchase Price	$ 40,000
b. Total Closing Costs (Est.)	
c. Prepaid Escrows (Est.)	
d. Total (a + b + c)	$
e. Amount This Mortgage	(30,000)
f. Other Financing	( )
g. Present Equity in Lot	( )
h. Amount of Cash Deposit	( )
i. Closing Costs Paid by Seller	( )
j. Cash Reqd. For Closing (Est.)	$

DESCRIBE OTHER INCOME

B—Borrower C—Co-Borrower — NOTICE: † Alimony, child support, or separate maintenance income need not be revealed if the Borrower or Co-Borrower does not choose to have it considered as a basis for repaying this loan. — Monthly Amount $

IF EMPLOYED IN CURRENT POSITION FOR LESS THAN TWO YEARS COMPLETE THE FOLLOWING

B/C	Previous Employer/School	City/State	Type of Business	Position/Title	Dates From/To	Monthly Income
B	US Army	Boston, Mass.	Signal Corps	Radar Tech	1975-77	$ 620.00
C	Bombadill & Baggins	Bree, New England	Attorney	Attorney	1976-77	1,400.00

THESE QUESTIONS APPLY TO BOTH BORROWER AND CO-BORROWER

If a "yes" answer is given to a question in this column, explain on an attached sheet	Borrower Yes or No	Co-Borrower Yes or No
Have you any outstanding judgments? In the last 14 years, have you been declared bankrupt?	no	no
Have you had property foreclosed upon or given title or deed in lieu thereof?	no	no
Are you a co-maker or endorser on a note?	no	no
Are you a party in a law suit?	no	no
Are you obligated to pay alimony, child support, or separate maintenance?	no	no
Is any part of the down payment borrowed?	no	no

	Borrower Yes or No	Co-Borrower Yes or No
Do you have health and accident insurance?	yes	yes
Do you have major medical coverage?	yes	yes
Do you intend to occupy this property?	yes	yes
Will this property be your primary residence?	yes	yes
Have you previously owned a home?	no	no
Sales Price of previously owned home?	$ NA	$ NA

* FHLMC requires self employed to furnish signed copies of one or more most recent Federal Tax Returns or audited Profit and Loss Statements. FNMA requires business credit report, signed Federal Income Tax returns for last two years, and, if available, audited P/L plus balance sheet for same period.

** All Present Monthly Housing Expenses of Borrower and Co-Borrower should be listed on a combined basis.

*** Neither FHLMC nor FNMA requires this information.

FHLMC 65 Rev. 3/77 — FNMA 1003 Rev. 1/77

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 (FHLMC 65A/FNMA 1003A). 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 Completed Jointly

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

Description	Cash or Market Value
Cash Deposit Toward Purchase Held By: Frodo Realty	$ 1000.00
Checking and Savings Accounts (Show Names of Institutions/Acct. Nos.) 1st Nat'l Bk, St. Paul -chkg	500.00
-svgs	7000.00
Home Federal S&L	9000.00
Stocks and Bonds (No./Description) 100 Shares Pillsbury	5200.00
Life Insurance Net Cash Value — Face Amount ($30,000.00)	1150.00
SUBTOTAL LIQUID ASSETS	$23350.00
Real Estate Owned (Enter Market Value from Schedule of Real Estate Owned)	
Vested Interest in Retirement Fund	
Net Worth of Business Owned (ATTACH FINANCIAL STATEMENT)	
Automobiles (Make and Year) 1973 Pinto	850.00
1976 Datsun 280Z	7000.00
Furniture and Personal Property	10000.00
Other Assets (Itemize) 750 Honda - 1975	2000.00
TOTAL ASSETS	A $43,700.00

LIABILITIES AND PLEDGED ASSETS

Indicate by (*) those liabilities or pledged assets which will be satisfied upon sale of real estate owned or upon refinancing of subject property

Creditors' Name, Address and Account Number	Acct. Name If Not Borrower's	Mo. Pmt. and Mos. left to pay	Unpaid Balance
Installment Debts (include "revolving" charge accts): Daytons		$ Pmt./Mos. 40.00	$ 400.00
Automobile Loans: 1st Nat'l Bk of St. Paul		122.00	1250.00
Real Estate Loans			
Other Debts Including Stock Pledges			
Alimony, Child Support and Separate Maintenance Payments Owed To			
TOTAL MONTHLY PAYMENTS		$162.00	
NET WORTH (A minus B) $ 42050.00		TOTAL LIABILITIES	B $1650.00

SCHEDULE OF REAL ESTATE OWNED (If Additional Properties Owned Attach Separate Schedule)

Address of Property (Indicate 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	Taxes, Ins. Maintenance and Misc.	Net Rental Income
		$	$	$	$	$	$
TOTALS →		$	$	$	$	$	$

LIST PREVIOUS CREDIT REFERENCES

B—Borrower C—Co-Borrower	Creditor's Name and Address	Account Number	Purpose	Highest Balance	Date Paid
				$	

List any additional names under which credit has previously been received

AGREEMENT The undersigned applies for the loan indicated in this application to be secured by a first mortgage or deed of trust on the property described herein, and represents that the property will not be used for any illegal or restricted purpose, and that all statements made in this application are true and are made for the purpose of obtaining the loan. Verification may be obtained from any source named in this application. The original or a copy of this application will be retained by the lender, even if the loan is not granted.

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 1014.

John A. Smith — Borrower's Signature — Date ______ Goldberry T. Pillsbury — Co-Borrower's Signature — Date Aug. 17, 1978

VOLUNTARY INFORMATION FOR GOVERNMENT MONITORING PURPOSES

If this loan is for purchase or construction of a home, the following information is requested by the Federal Government to monitor this lender's compliance with Equal Credit Opportunity and Fair Housing Laws. The law provides that a lender may neither discriminate on the basis of this information nor on whether or not it is furnished. Furnishing this information is optional. If you do not wish to furnish the following information, please initial below.

BORROWER: I do not wish to furnish this information (initials) ______
RACE/NATIONAL ORIGIN: [ ] American Indian, Alaskan Native [ ] Asian, Pacific Islander [X] Black [ ] Hispanic [ ] White [ ] Other (specify) ______ SEX [ ] Female [X] Male

CO-BORROWER: I do not wish to furnish this information (initials) ______
RACE/NATIONAL ORIGIN: [ ] American Indian, Alaskan Native [ ] Asian, Pacific Islander [X] Black [ ] Hispanic [ ] White [ ] Other (specify) ______ SEX [X] Female [ ] Male

FOR LENDER'S USE ONLY

(FNMA REQUIREMENT ONLY) This application was taken by ______ (Interviewer) ______, a full time employee of ______ (Name of Lender) ______, in a face to face interview with the prospective borrower.

FHLMC 65 Rev. 3/77 — REVERSE — FNMA 1003 Rev. 3/77

Figure 5
Legal Counsel Comparison

ANSWER (circle or complete)			ITEM (consider)
Yes	No		—Do you realize that the majority of real estate transactions occur without either legal problems or the direct supervision of a buyer's attorney?
Yes	No		—Nevertheless, do you realize that legal problems, when they occur (most common for contract for deed and cash purchases), generally are a financial disaster; thus, advice of your own attorney is critical insurance in every real estate transaction?
Yes	No		—Do you realize that some attorneys specialize in real estate transactions and can be of greater service to you?
Yes	No		—Are you aware that legal advice is most critical before you submit a written offer (i.e., purchase agreement)?
Yes	No		—Have you asked friends, co-workers, mortgage officers, and perhaps real estate agents, to recommend several attorneys who are experienced and specialized in real estate transactions?
			—For your reference, list the names of the attorneys recommended. 1. ______ (phone) 2. ______ (phone) 3. ______ (phone)
ATT. 1	ATT. 2	ATT. 3	—Contact the attorneys recommended to you and compare your assessment of each attorney's abilities, services, and charges.
____%	____%	____%	—Approximately what percentage of the attorney's practice is devoted to real estate transaction?
____	____	____	—How many years has the attorney been practicing law (preferably specializing in real estate)?
(GOOD,	FAIR,	POOR)	—Do you feel comfortable with the attorney's explanation of how he or she can serve or advise you:
GFP	GFP	GFP	• reviewing or drafting the written offer to purchase (i.e., purchase agreement)?
GFP	GFP	GFP	• purchasing on cash or contract for deed basis, examining the title, drafting or reviewing and filing the necessary documents to complete the transfer of ownership?
GFP	GFP	GFP	• regarding joint tenancy, tenants in common, and other methods of ownership?
GFP	GFP	GFP	• representing you at the closing (especially for cash or contract for deed purchases)?
GFP	GFP	GFP	• other (specify) ______
$____	$____	$____	—approximately how much will the attorney charge for his or her services? (Note: Remember, when comparing estimated fees: 1) a more experienced attorney may provide more service, in less time, at a lower fee; 2) you should put more weight on recommendations and your own impression than fee alone; and 3) the attorney's estimated fee is based upon his or her impression of the amount of assistance you are requesting.)

Figure 6 Real Estate Agent Comparison

ANSWER (circle or complete)			ITEM (consider)
			—Before contacting real estate agents for assistance, have you recognized:
Yes	No		• that approximately 15 percent (in urban areas) to 35 percent (in rural areas) of older homes and about 65 percent of new homes are not sold through real estate agents; thus, it is desirable to search the market on a direct basis via want-ads, for-sale signs, and personal referrals?
Yes	No		• that over one-third of "older" home buyers purchase through an agent because the agent "... just happened to be selling the home... wanted...;" thus, it is desirable to contact several agents?
Yes	No		• that any real estate agent you, as a buyer, contact is legally bound to represent the seller?
Yes	No		• that the real estate agent's expertise and financial motive is to sell, and buyers expecting more often complain that agents lack knowledge, are uncooperative, dishonest, pushy, or withhold information?
Yes	No		• that the real estate profession is characterized by a high turn-over of agents, so that knowledge and expertise will vary substantially between agents?
Yes	No		• that real estate agents who are Realtors are members of a professional association encouraging ethics, education, and other improvements in agent services?
Yes	No		—Have you asked friends, co-workers, mortgage officers, attorneys, and others to recommend several agents who are experienced, reputable, and specialized in homes similar to the one you desire? For your reference, list the names of the recommended agents. 1. ________________ (phone) 2. ________________ (phone) 3. ________________ (phone)
AGT. 1	AGT. 2	AGT. 3	—Contact the agents recommended to you and compare your assessment of each agent's abilities and services.
_____	_____	_____	—How many years have the agents been employed full-time selling real estate?
			—Are the agents' and their brokers' (the agents' firms) reputation and performance of unquestionable integrity according to:
Y N	Y N	Y N	• the Better Business Bureau (see your phone directory; dial 646-4631, in the metropolitan area).
Y N	Y N	Y N	• The Minnesota Real Estate and Securities Division (maintains record of complaints; dial 612-296-2594).
Y N	Y N	Y N	• the county or area Board of Realtors (see your phone directory).
(GOOD,	FAIR,	POOR)	—Do you feel comfortable with the agents' explanations of how he or she can serve you in regards to:
GFP	GFP	GFP	• helping you consider the most important features to look for in a house according to your changing needs, desires, and lifestyle?
GFP	GFP	GFP	• helping you determine the amount you can afford to spend as well as sources and types of available mortgages?
GFP	GFP	GFP	• helping you screen the types, characteristics, and prices of houses on the market?
GFP	GFP	GFP	• identifying neighborhood trends such as taxes, resale, values, planned public improvements, and so on?
GFP	GFP	GFP	• helping you understand the limits of his or her expertise and when advice of an attorney, appraiser, inspector, or other professional may be desirable?
GFP	GFP	GFP	• negotiating the price and terms most favorable to you as a buyer, even though the agent is legally and financially the representative of the seller?
GFP	GFP	GFP	• what is expected of you by the agent to justify his or her efforts to help you? (Note: Most agents desire an exclusive commitment to them; weigh whether such a commitment will allow you to search for homes offered on an "exclusive listing" by another agent or on an "owner-selling" basis. To avoid a commission dispute between agents, do not revisit a house already shown to you by another agent.)

Figure 7
Appraiser Comparison

ANSWER (circle or complete)			ITEM (consider)
Yes	No		—Do you realize that the majority of homes sold and bought are done so without the involvement of an independent, professional appraisal?
Yes	No		—Do you realize, however, that an independent appraisal can help you, as a buyer, determine if the asking price or purchase price accurately reflects the estimated "true market value" of the dwelling?
Yes	No		—Are you aware that you can make a written offer to purchase a house contingent upon receiving an independent appraisal indicating the value is at or above the price (see your attorney for adding this clause; for FHA, FmHA, MHFA, and VA mortgages this protection is usually included in the purchase agreement)?
Yes	No		—Do you realize that some appraisers specializing in residential properties, are independent (i.e. not associated with real estate firms), are experienced, and are members of professional associations?
Yes	No		—Have you asked friends, co-workers, mortgage officers, attorneys, or others to recommend several appraisers who are experienced, reputable, and specialize in independent appraisals of residential property?
			—For your reference, list the names of recommended appraisers.
			1. ______________________ (phone)
			2. ______________________ (phone)
			3. ______________________ (phone)
APP. 1	APP. 2	APP. 3	—Contact the appraisers recommended to you and compare your assessment of the appraisers' abilities, services, and charges.
_____%	_____%	_____%	—Approximately what percentage of the appraiser's practice is devoted to appraising single family dwellings?
_____	_____	_____	—How many years have the appraisers been professionally involved full time in appraising single family dwellings?
Y N	Y N	Y N	—Are the appraisers independent and not biased by an association with a real estate agent or broker?
(GOOD,	FAIR,	POOR)	—*Do you feel comfortable* with the appraiser's explanation of how he or she can serve you in regards to:
GFP	GFP	GFP	• the basic art of appraising including the strengths and weaknesses of the "market" (or comparative) and "cost" (or replacement) approaches?
GFP	GFP	GFP	• when an appraisal will be most helpful and when it may be unnecessary?
GFP	GFP	GFP	• the general trends and characteristics influencing past, present, and perhaps future values (e.g., the financial wisdom of making improvements in the dwelling, neighborhood variables, etc.)?
GFP	GFP	GFP	• the different levels of service the appraiser gives you the option of selecting (i.e., do you desire a photo, do you want a written appraisal, or is a verbal report acceptable)?
$_____	$_____	$_____	—Approximately how much will the appraiser charge for his or her services? (Note: the appraiser's estimated fee will be based upon his or her impression of the service you are requesting. The estimated fee should be secondary to your impressions and recommendations you receive about the appraiser in respect to selection).

Figure 8
Home Inspection Comparison

ANSWER (circle or complete)			ITEM (consider)
Yes	No		—Do you realize that the majority of home buyers do not rely upon an evaluation of the dwelling by an independent, professional inspector?
Yes	No		—However, do you realize that an independent assessment of the dwelling's structural and mechanical quality can help you avoid unexpected costly problems and assess the feasibility of improvements?
Yes	No		—Are you aware that you can make a written offer to purchase a house contingent upon receiving an independent report indicating satisfactory structural, exterior, and mechanical condition (see your attorney for adding this clause; if an FHA, FmHA, MHFA or VA mortgage is involved, there is usually a minimal inspection)?
Yes	No		—Are you aware that there are several different types of professionals who can independently evaluate the quality of a dwelling including:
			• an independent home inspector who is a licensed engineer (see your yellow page listing under "Building Inspection Services")?
			• in communities with "truth-in-housing" ordinances, a licensed municipal evaluator?
			• when a "certificate of code compliance" is required from the seller as a condition of the purchase agreement, a municipal housing inspector?
			• a contractor?
			• an architect?
Yes	No		—Have you asked local building inspectors, mortgage officers, attorneys, friends or others to recommend several experienced individuals who offer individual inspection services to buyers?
			—For your reference, list the names of recommended inspectors.
			1 . ____________________ (phone)
			2. ____________________ (phone)
			3. ____________________ (phone)
INSP. 1	INSP. 2	INSP. 3	—Contact the individuals recommended to you and compare your assessment of the inspector's abilities, services, and charges.
Y N	Y N	Y N	—Does the individual specialize in inspecting homes?
Y N	Y N	Y N	—Do you feel the individual is qualified to help you as a buyer (i.e., what is the individual's experience, how long has he or she been in business or employed as an inspector)?
Y N	Y N	Y N	—Have the inspectors shown you examples of their reports to other buyers, and are you satisfied this will meet your needs?
Y N	Y N	Y N	—Have the inspectors explained when their services will be most helpful and when they may be unnecessary?
$______	$______	$______	—Approximately how much will the inspector charge for his or her services?

Explanation of Flow Diagrams

Note: Flow diagrams may be new and, perhaps, a bit confusing to you. If so, simply take a piece of paper and place it over the top of the diagram. Then move the paper from left to right and stop at each new step. Think about this step and then consider how it relates to the previous step. You will find the flow diagram fun and informative when you learn what it has to offer. Detailed descriptions of the flow charts follow.

FLOW DIAGRAM EXPLANATION: PROFESSIONAL ASSISTANCE OPTIONS

*OBTAIN PROFESSIONAL ASSISTANCE—Buyer may seek assistance from a number of professionals including:

*-1. **REAL ESTATE AGENT**—The majority of older home buyers (about 80 to 85 percent in Minnesota metropolitan areas, less elsewhere), purchase a home listed with an agent (9:10). About 3/5 of these buyers relied upon agent's knowledge and experience to help them search the market, obtain financing, etc. (9:10). A substantial number of these buyers (20 to 30 percent) would not buy or sell through the same agent again, feeling the agent lacks knowledge, was dishonest, was pushy, withheld information, was not cooperative, etc. (9:10 and 1). This situation underscores the importance of: 1) carefully selecting a knowledgeable, experienced, reputable agent; 2) recognizing that the agent is legally the representative of the seller; 3) the agent is paid by the seller only when you sign a purchase agreement and financially and otherwise qualify; 4) the agent's financial benefit is greater when you buy a more expensive home; 5) the agent has a legal obligation to obtain the highest possible price for the seller; 6) an agent's expertise is selling, bringing buyer and seller together.

*-2. **ASSORTED PROFESSIONALS DIRECTLY**—Since there is not a single individual who can accurately advise on all facets of home buying, the consumer may seek independent assistance from a number of professionals including:

*-2A. *COUNSELOR*—Social service organizations and larger housing authorities have trained personnel who will help consumers independently weigh personal housing decisions.

*-2B. *INDEPENDENT FEE-APPRAISERS*—Consumer may wish to contact an independent fee-appraiser for information about housing values and prices.

*-2C. *MORTGAGE OFFICER*—Buyer may wish to seek the assistance of a mortgage officer to determine ability to obtain a mortgage and to determine current interest rates and down payment requirements.

*-2D. *PRIVATE FEE INSPECTOR*—Consumer may wish to obtain an independent, professional opinion of the dwelling's structural and mechanical quality by hiring a private fee inspector.

*-2E. *MUNICIPAL INSPECTOR*—(Involved when buyer or lender requires the seller to furnish a "certificate of code compliance". Services are similar to private fee inspector.)

*-2F. *CONTRACTOR*—(Services similar to inspectors, however contractors may have greater expertise estimating rehabilitation costs.)

*-2G. *ARCHITECT*—(Services similar to inspectors, however, architects generally have greater expertise identifying rehabilitation options.)

*-2H. *ATTORNEY*—Buyer may seek the assistance of an attorney to draft a purchase agreement specifically tailored to his or her unique situation. If buyer is not working with his or her own real estate agent, attorney may also handle negotiation with the seller.

*-2I. *INDEPENDENT FEE-APPRAISER*—When submitting an offer, buyer may wish to hire an independent fee-appraiser to determine the fair market value of the house (as opposed to the seller's asking price).

*-2J. *MORTGAGE OFFICER*—To obtain a mortgage or to assume the seller's mortgage, the buyer (or his or her real estate agent) should contact one or more mortgage officers.

*-2K. *ATTORNEY*—To obtain a contract for deed or to buy on a cash basis, the buyer should involve his or her own attorney.

FLOW DIAGRAM EXPLANATION: PRE-SEARCH PHASE OF HOUSE BUYING

1. **CHANGE DESIRED**—Consumer gradually reaches level where the present housing situation does not fulfill his or her housing aspirations. In some situations, such as an employment change, marriage, death, or other emotionally charged period, the desire for a housing change is reached much faster.
2. **DEFINE PRELIMINARY OBJECTIVES**—Consumers should recognize the reasons a change is desired and establish the objectives to be accomplished with a housing adjustment (Professional help often is crucial. See *-1 and *-2A). The definition of preliminary objectives reflects:

   2-1. *PRICE RANGE*—The amount of household financial and supplemental human resources to be allocated to housing. In husband-wife household, price is frequently (over 40 percent) an area of disagreement (8:298) where the husband tends to dominate (14:63).

2-2. *LOCATION*—The vast majority of home buyers (nearly 90 percent in the Minneapolis area) define the area to which they prefer to move and in which they finally buy. Driving time to work, familiarity with the area, and suggestions from friends and business associates are important forces identifying preferred locations. The median distance owners live from work is 7 miles, or 20 minutes travel time (2:92-93) in this region of the country. Although buyers do not appear to weight transportation costs adequately when they consider location, it is becoming more crucial to deal with this increasing cost. As with price, husband-wife households occasionally disagree on location decisions (30 percent; 8:298 and 14:63); however, neither spouse appears to dominate (14:63).

2-3. *SIZE*—The desired number of bedrooms and square footage are factors influenced by the size of the present dwelling and changing household composition.

2-4. *STYLE*—Architectural style and layout of the home are characteristics important to many buyers, especially those purchasing more expensive dwellings. In husband-wife households, exterior style and floor plan decisions are occasional areas of disagreement (30 percent) were the wife tends to dominate (14:63 and 8:298).

2-5. *FEATURES*—Other features often important to home seekers include: condition; garage; lot size; kitchen layout; closet space; number of bathrooms; separate dining area; fireplace; family room; and expandability.

2-6. *STRUCTURE TYPE*—The majority of home buyers originally set out to obtain a specific type of structure: detached single family; attached single family (duplex or townhouse); mobile home: or multi-family. It is desirable to assess structural type alternatives early, since 30 to 50 percent of consumers (in the Minneapolis area) move to a structural type other than that originally preferred.

2-7. *TENURE*—Achieving ownership is an important objective for a number of renters (the majority of renters who buy in the Minneapolis area purchase existing dwellings) and maintaining ownership is important for most individuals currently owning. Important ownership alternatives and their percentages in this region of the U.S. are: condominium, 1 percent, cooperative, 1 percent, and fee-simple, 99 percent (2:87).

3. **EVALUATE RESOURCES**—To reduce time, effort, and frustration, the buyer should assess the following four factors to decide what price range to purchase within (note: these are the basic factors a lender will also evaluate):

3-1. *CAPACITY*—The ability to meet continuing monthly and periodic housing expenses.

3-1A. DEPENDABLE INCOME—The household income, as verified by employer or income tax return from salary, wages, tips, alimony, overtime, commissions, dividends, and interest which is dependable to meet future housing expenses.

3-2. *CHARACTER*—The past experience of paying financial obligations is assumed to reflect the consumer's future responsibility to pay new housing liabilities.

3-2A. CREDIT HISTORY—Payment experience with installment debt, automobile loans, and real estate loans are examined from credit records.

3-3. *COLLATERAL*—The "net worth" (value of assets and cash, less liabilities and debts) the buyer can "put down" as security and a good faith pledge that housing obligations will be paid. Net worth is influenced by:

3-3A. LIQUID ASSETS—Cash in checking and savings accounts, stocks and bonds, and net cash value of life insurance which can be used for down payment or future housing expenses.

3-3B. NET SALE VALUE OF PRESENT HOME—The cash a homeowner expects to have available for down payment or future housing expenses (selling price minus selling costs and outstanding mortgage and other liens). The market value of the home which will be mortgage financed will be a primary concern of the lender.

3-3C. OTHER FIXED ASSETS—Net market value of non-owner-occupied real estate and business property owned as well as automobiles, furniture, and personal property available to satisfy future (emergency) housing expenses.

3-4. *SUPPLEMENTAL HUMAN RESOURCES*—Consumers, especially younger, first-time buyers, often attempt to stretch financial resources by investing human resources. The consumer considering such an investment should exercise caution by realistically assessing:

3-4A. TIME—The available time after work and responsibility to family and self, as well as the schedule that will be allocated to improvements.

3-4B. SKILLS—Existing skills in carpentry, plumbing, wiring, masonry, etc. (including tools and equipment).

3-4C. DESIRE—The intangible priority one attaches to achieving the housing objective.

4. **ASSESS FINANCIAL ALTERNATIVES**—Initial discussion with lenders concerning ability to obtain financing and the related initial cost and long-term obligations.
   4-1. *INTEREST RATES*—Mortgage interest rates influence monthly housing expenses and may vary between lenders for different types of mortgages and according to the supply and demand for financing.
   4-2. *DOWN PAYMENT REQUIREMENTS*—Varying requirements for initial cash investment according to the type and source of financing (interdependent with monthly expenses).
5. **PRELIMINARY ASSESSMENT OF HOUSING MARKET**—Consumer often begins a preliminary and casual examination of trends in the housing market through three main sources:
   5-1. *PERSONAL-SOCIAL CONTACT-INQUIRE*—This assessment involves the opinions and observations of friends, neighbors, co-workers, busines associates, and, perhaps, relatives as well as "driving-around" scanning for sale signs.
   5-2. *NEWSPAPERS*—This assessment involves reading newspaper stories and more importantly real estate classified advertising.
   5-3. *PROFESSIONAL CONTACT-INQUIRE*—This assessment involves discussions with real estate agents, lenders, and, in some areas, specially funded housing counselors and others knowledgeable about the market.
6. **REDEFINE OBJECTIVES**—After completing an initial assessment of the housing market, financial alternatives, and resources available for housing, search objectives often are modified.

FLOW DIAGRAM EXPLANATION: SEARCH PHASE OF HOUSE BUYING

1. **IMPLEMENT ACTIVE SEARCH**—Consumer reaches a level where he or she feels comfortable to begin the complex, emotional, and expensive search phase of house buying. The satisfactory completion of the search will be influenced by the consumer's pre-search phase decisions and the sources of information employed.
2. **SOCIAL SOURCES**—Prospective buyers, especially in smaller towns, rely upon information provided informally by social and professional acquaintances. While these sources are frequently sought, research indicates that these sources provide information of limited help. Approximately one-third of buyers rely upon social sources of information (9:14, cf[12] 1 and 7:79).
   2-1. *FRIENDS*
   2-2. *CO-WORKERS AND BUSINESS ASSOCIATES*
   2-3. *RELATIVES*

[12]Cf indicates supportive, but not direct, references.

3. **COMMERCIAL SOURCES**—The most important and helpful sources of information for prospective buyers are sources that involve a commercial or, perhaps, profit interest in selling and buying.
   3-1. *NEWSPAPER ADVERTISING*—The vast majority of home buyers (up to 90 percent) especially in larger communities, find real estate classified advertising helpful during the search process (about half, however, also find ads incomplete, incorrect, or exaggerated) (9:15, cf 7:79 and 1).
   3-2. *REAL ESTATE AGENTS*—The majority of home buyers (about 80 percent) in larger communities buy a home through a real estate agent (20 to 30 percent, however, would not buy another house through the same agent) (9:10-11, cf 7).
   3-3. *FOR SALE SIGNS*—The majority of home buyers, (nearly 70 percent), visit homes as a result of for sale signs. This fact underscores the importance of personally searching target areas (9:14).
   3-4. *ATTORNEYS*—Occasionally, a home buyer will inform his or her attorney early in the search process that they are intending to buy a home. Some attorneys, especially those specializing in real estate, can help by briefing the consumer about contracts, negotiating, financing alternatives, etc. (7:79).
   3-5. *LENDERS*—Lenders are a frequent source of information about the housing market, especially in smaller towns (7:79, 1).
   3-6. *BUILDERS*—Prospective home buyers who may be considering the option of buying or building a new home as well as buying an "older" home, may seek information from builders (approximately 60 percent of new homes are sold directly by the builder) (9:10).
4. **REDEFINE OBJECTIVES**—Based upon the prospective buyer's search, his or her objectives will be redefined by the realities of the market. It is critical, at this stage, that the buyer compromises on only trade-off objectives. The commitment to obtain the most important objectives should be strengthened.
5. **COMPARATIVELY EVALUATE HOUSES**—When the prospective buyer moves from detached evaluation of the housing market, a critical decision point must be recognized: to buy based largely upon psychological reactions which may be manipulated by a skilled seller or because of a thorough evaluation of several dwellings.
6. **PSYCHOLOGICAL REACTION**—All buyers are swayed, to varying degrees, by first impression. It is important to be in touch with this feeling and not let it suppress a careful, step-by-step assessment of the dwelling's strengths and deficiencies. Remember, you are buying both psy-

chological feelings as well as a house in "as is" condition. Your psychological reactions change after you move in. Consider returning to a home you have positive feelings about and thoroughly evaluating it.

7. **INITIATE FIRST ASSESSMENT PHASE**—Individuals proceeding without knowledgeable technical assistance should carefully assess dwellings for strengths as well as critical (costly) deficiencies and other short comings.
   7-1. *ASSESS LOCATION AND LOT*—Desirability of location and lot considered, including proximity to work, schools, etc.; neighborhood property values and characteristics; physical topographical features; landscaping; and so on. Neighbors are an excellent source of information about changes in the area, the seller's motivation for selling, and, perhaps, the seller's experience with problems of the house. For buyers of homes with private wells and sewer systems, it is critical to have the systems evaluated by an independent inspector. Likewise it is critical to determine if public water and sewer are likely to be installed in the near future, how much this may cost you, and whether your budget will be adequate to meet this expense.
   7-2. *ASSESS FOUNDATION*—Structural integrity of foundation and susceptibility to moisture seepage are assessed.
   7-3. *ASSESS STRUCTURE*—Floor, wall, ceiling, and roof structural members assessed for ability to carry existing or additional (weight) loads.

8. **INITIATE SECOND ASSESSMENT PHASE**—Individual assesses the dwelling for significant (not necessarily critical) and costly deficiencies.
   8-1. *ASSESS MECHANICAL SYSTEMS*—The three basic mechanical systems—plumbing, heating and electrical—are evaluated for possible replacement, repair, or capacity expansion.
      8-1A. PLUMBING SYSTEM—Fresh water and drainage lines, vents, traps, and fixtures are evaluated.
      8-1B. HEATING SYSTEM—Heating plant, heating elements, distribution lines, air conditioning equipment, and controls as well as insulation are evaluated.
      8-1C. ELECTRICAL SYSTEM—Basic capacity of service and branch circuits, condition of wiring, and outlet, switch, and lighting quality are evaluated.
   8-2. *ASSESS EXTERIOR ENVELOPE*—The three basic exterior elements—roofing, window-door openings, and siding—are evaluated for condition.
      8-2A. ROOFING—Roofing material, flashing, and roof-deck ventilation (if inadequate, ice-damming often results) are evaluated.
      8-2B. WINDOWS-DOORS—Caulking, weather-stripping, and condition of windows and doors are evaluated.
      8-2C. SIDING—Siding is evaluated for deterioration caused by exterior or interior moisture, either of which must be resolved before satisfactory repair or replacement can occur.

9. **INITIATE THIRD ASSESSMENT PHASE** — Individual assesses dwelling for interior features which may limit liveability.
   9-1. *ASSESS INTERIOR PLAN* — The two critical elements influencing the functioning of the plan, circulation and layout-zoning, are evaluated.
      9-1A. CIRCULATION — Since direct and short traffic patterns are indicators of a good plan, the dwelling is evaluated for these features.
      9-1B. LAYOUT-ZONING — Separation and concentration of space into three basic areas (public, private, and service) are evaluated in terms of family living patterns and activities (social, personal, and work).
   9-2. *ASSESS INDIVIDUAL AREAS* — Areas are assessed for their adequacy to efficiently support specialized activities (e.g., kitchens for food storage, preparation, serving, etc.).
   9-3. *ASSESS INTERIOR MATERIALS* — The three major interior finish materials—floors, walls-ceilings, and trim-fixtures — are evaluated.
      9-3A. FLOORS — Floor surfaces are evaluated for unevenness, worn areas, ease of maintenance, and safety as well as aesthetic value.
      9-3B. WALLS-CEILINGS — Wall and ceiling surfaces are evaluated for cracks, holes, loose areas, and ease of maintenance as well as aesthetic value.
      9-3C. TRIM and FIXTURES — Trim and electrical and plumbing fixtures are evaluated for general functional condition and aesthetic value.

10. **COMPLETE ASSESSMENT PHASE** — Buyer reviews deficiencies and weighs the relative costs and benefits of the dwelling with others that have been examined.

11. **ESTIMATE COSTS OF REHABILITATING AND DECORATING** — If the buyer feels the asking price is reasonable in comparison to other dwellings on the market, an estimate of bringing the house up to the buyer's standards is useful for submitting an offer and negotiating.

12. **ADAPTABLE SELECTION COMPLETED** — The consumer eventually decides dwelling fulfills housing adjustment objectives.
13. **SUBMIT WRITTEN OFFER** — It is extremely important that the buyer submit an unsigned written rather than oral offer (in Minnesota, only written offers are legally binding for real estate). This offer, often referred to as the purchase agreement or earnest money contract, should include a detailed listing of terms and conditions as well as all oral promises in writing. Since the offer should protect the interest of the buyer, consultation with an attorney representing only the buyer is especially critical. By submitting the written offer unsigned, the buyer remains in a flexible position to further negotiate with the seller.
14. **TERMS** — The detailed agreements the buyer wishes to reach with the seller include:
    - 14-1. *TYPE OF CONVEYANCE* — The formal, legal instrument by which the seller will transfer ownership to the buyer.
        - 14-1A. WARRANTY DEED (also known as a General Warranty Deed) — The seller legally promises that the property is free from any legal claims (except as stated in the deed), the buyer will not be evicted or disturbed by another person with a legal claim, and the seller will defend the buyer's ownership if necessary.
        - 14-1B. LIMITED WARRANTY DEED (also known as a Special Warranty Deed) — The seller legally promises only that he or she has done nothing during his or her ownership which would impair the buyer's ownership, and the seller will defend the buyer's ownership for claims arising due to the seller's ownership.
        - 14-1C. QUIT CLAIM DEED — The seller gives the buyer whatever ownership the seller may have and makes no legal promise about ownership claims. Thus, the buyer assumes all risks.
        - 14-1D. PROBATE DEED — When the property of a deceased individual is sold by the estate, the executor gives the buyer a legal promise that the executor has done nothing to impair the buyer's ownership. Usually, a probate deed is accompanied with a number of other documents, such as a certificate of death.
    - 14-2. *CLOSING DATE* — The day ownership passes from the seller to the buyer usually 6 to 12 weeks after purchase agreement is signed, if the buyer is anticipating mortgage financing).
    - 14-3. *POSSESSION DATE* — The day the buyer takes possession from the seller. (Note: If the seller is unable to give possession at this date, the buyer may desire to complete the purchase and to have the seller sign a rental agreement. If the date of possession is critical to the buyer, he or she may wish to have an attorney insert a clause with an accelerated daily rent schedule.)
    - 14-4. *INCLUSIONS* — The items included in the sale — some of which may be considered under state law to be included as real estate (permanently attached improvements). It is important to realize: 1) any items desired by the buyer should be specified; and 2) the items should be listed and recorded, if appropriate for tax purposes, as personal rather than real property.
    - 14-5. *PURCHASE PRICE* — The buyer's original offer and, eventually, final price agreed upon by both buyer and seller.
    - 14-6. *PRORATION OF TAXES* — The satisfaction of property taxes assessed, levied, due, and payable as negotiated by buyer and seller. It is the custom in Minnesota for the seller to pay for — or the buyer and seller to negotiate division of — the property taxes due and payable in the year in which the sale takes place (e.g., if the closing takes place on August 30, 1978, the seller may pay for 8 months and the buyer pay for 4 months of the taxes assessed for 1977 and payable in 1978) even though the property has been assessed and the property taxes have been levied for the previous year. Buyers who realize this fact may attempt to negotiate a prorating of tax obligations incurred as a result of property assessments for the current year and payable in the following year (e.g., if the closing takes place on August 30, 1978, to negotiate that the seller pay for 8 months of the tax obligation resulting from the value of taxes assessed for 1978 and which will be levied, due, and payable in 1979).
    - 14-7. *INSURANCE* — It is in the buyer's best interest to specify in the purchase agreement that the "...seller will maintain fire and hazard insurance sufficient to protect the buyer until (closing date)."
    - 14-8. *SURVEY* — The purchase agreement should require the seller to furnish a survey, at the seller's expense, if there is any doubt about property boundaries or the location of improvement or easements.
    - 14-9. *DISPOSITION OF ASSESSMENTS* — The purchase agreement should specify that the seller (required for FHA, FmHA and VA financed) will pay any assessments levied or pending prior to the closing date (for sewer, sidewalks, streets, etc.)
15. **CONDITIONS** — Clauses that revoke the purchase agreement if not "satisfied," including:

15-1. *DEPOSIT (also known as "earnest money")* — The amount of money the buyer presents as a sign of good faith ("in earnest") to demonstrate sincerity (generally held by a third party, such as the seller's agent or attorney, and normally applied toward the buyer's down payment).

15-2. *FURNISH TITLE ABSTRACT* — The signed purchase agreement should specify that the seller, at his or her expense, will furnish an up-to-date abstract of title or registered property abstract.

15-3. *TIME FOR RESPONSE* — The purchase agreement, when used as an offer, should contain a specified (such as 2 to 7 days) period for the seller to respond.

15-4. *CONTINGENCIES* — Items that must be "satisfied" for a legally binding contract, including:

15-4A. BUYER FINANCING — It is extremely important that the purchase agreement be contingent upon the buyer's ability to obtain financing (type, amount, interest rate, term should be specified).

15-4B. INSPECTION/CODE — The buyer may wish to make the offer (purchase agreement) contingent upon the seller furnishing a "certificate of code compliance" (obligates the seller to make legally required improvements) or upon a "satisfactory" report from an independent inspector hired by the buyer. (Note: Such an inspection may supplement the inspection designed to protect the lender and required for FHA, FmHA, MHFA, and VA mortgages.

15-4C. APPRAISAL — The purchase agreement should be contingent upon an appraisal (completed by an independent fee appraiser paid by the buyer) indicating that the purchase price is not excessive. Although the lender will initiate an appraisal, this action does not protect the interests of the buyer.

15-4D. BUYER HOME SALE — Sometimes, a buyer will specify that the purchase agreement (or date of closing) is contingent upon the sale of the buyer's present home.

15-4E. INTENDED USE — If the buyer desires to change the use of the dwelling, for example, for commercial or rental purposes, the purchase agreement may be contingent upon receiving zoning approval.

16. **NEGOTIATE** — Usually, the seller will dramatically, in the fashion of the best actor, reject the buyer's offer and, depending on the seller's exact situation, he or she will either "wait the buyer out" or counter with another offer. The negotiation process may occur either directly between the buyer and seller or through an agent, attorney, or other party.

17. **SIGN FINAL PURCHASE AGREEMENT** — When the buyer and seller agree to the terms and conditions of sale, a purchase agreement is signed by both parties (including spouses) and the buyer gives the seller or the seller's agent an earnest money deposit which is subsequently applied toward down payment. If the sale does not occur as outlined in the purchase agreement, the earnest money is returned to the buyer only for reasons specified in the purchase agreement.

FLOW DIAGRAM EXPLANATION: POST-SEARCH PHASE OF HOME BUYING

1. **INITIATE FINAL FINANCING ARRANGEMENTS** — Immediately after signing the purchase agreement with the seller, the buyer begins to formally arrange necessary financing. This may involve paying cash, assuming the seller's mortgage, obtaining a contract for deed, a combination of these latter arrangements, or obtaining mortgage financing.

1-1. *SUBMIT MORTGAGE APPLICATION* — The majority of buyers (about 80 percent) obtain a mortgage from savings and loan associations (source of about 40 percent of "older" home mortgages, less in rural areas), banks (source of about 20 percent of "older" home mortgages, more in rural areas), mortgage banking firms, (through real estate brokers, source of about 15 percent of "older" home mortgages, less in rural areas), credit unions, or federal agencies (3:43). To obtain a mortgage, the buyer is required to submit a detailed mortgage application listing monthly income, employment, assets, debts, credit references, and so on.

1-1A. CONVENTIONAL —directly between buyer and lender, most common (over one-third) type of mortgage used for "older" homes (9:6), and requires 20 percent or more down.

1-1B. CONVENTIONAL-INSURED — a "conventional" mortgage with a low down payment ranging from 5 percent to 19 percent and requiring either 1) the seller (customarily) or buyer to pay at the closing a one-time insurance premium of 1⅞ percent to 2½ percent of the mortgage amount or 2) the buyer or seller to pay a ½ to 1 percent premium at the closing with an additional ¼ percent premium per year. This insurance protects the lender against a portion of the loss if the buyer defaults on mortgage repayments.

1-1C. FHA (FEDERAL HOUSING ADMINISTRATION) — a very low down payment (as little as 3 percent) "conventional" mortgage requiring the buyer to pay an additional ½ percent charge per month to FHA in order to protect the lender against loss if the buyer defaults on mortgage repayments. FHA mortgages are used for about one-fourth of the mortgages made on "older" urban houses (9:6).

1-1D. VA (VETERANS ADMINISTRATION) — Armed-forces veterans, with an honorable discharge and 181 days or more of active service (90 days for World War II or Korean conflict), may obtain a VA-guaranteed mortgage with as little as nothing down, in which the lender is guaranteed against losses up to $17,500 if the buyer defaults on mortgage repayments. During recent periods, VA mortgages have been used for about one-fifth of the mortgages made on "older" Minnesota homes (9:6). (Note: if VA mortgages are unavailable from local lenders, direct loans are available from VA county offices).

1-1E. FmHA (FARMERS HOME ADMINISTRATION) — A resident of a rural area or community with population under 20,000, having "moderate" income, unable to obtain a desired mortgage from other sources, (i.e., unable to obtain financing from at least two local lenders), and buying a decent but modest home may obtain a direct mortgage from his or her county FmHA office (interest rate depends upon income).

1-1F. MHFA (MINNESOTA HOUSING FINANCE AGENCY) — A moderate income buyer desiring to purchase a decent but modest home may apply for an MHFA mortgage from a participating local lender. Interest rate generally is 1 to 2½ percent below conventional, FHA, and VA interest rates. (For information, contact MHFA, 480 Cedar, St. Paul, MN 55101).

1-1G. OTHER — Although used infrequently, additional types of financing include that available from the Production Credit Administration (PCA) or Federal Land Bank (both available in rural areas) or, in larger communities, from Local Housing and Redevelopment Authorities (interest rate varies with income) and, occasionally, credit unions.

1-2. *REVIEW CLOSING COST ESTIMATE* — When buyers complete a mortgage application or when they inquire ("shop") about different sources or types of mortgages,they should request and review the lender's "good-faith" estimate of closing costs. For most mortgages, the lender is required to give the consumer a book entitled Settlement Costs, which explains closing costs and procedures. Federal law requires this book to be given to the consumer when he or she submits a mortgage application.

1-2A. LENDER'S APPRAISAL — After a buyer completes a mortgage application, the lender (or FHA, VA, FmHA) appraises the house to determine if the "market value" is adequate to protect the lender's mortgage risk.

1-2B. LENDER VERIFIES EMPLOYMENT — Lender confirms employment situation of the borrower and co-borrower to determine if employment stability, outlook, and earnings are adequate to protect the lender's mortgage risk. If the borrower or co-borrower is self-employed, the lender will request income tax returns to verify income.

1-2C. LENDER VERIFIES CREDIT HISTORY — Lender reviews borrower and co-borrower credit reports to determine if history is adequate to protect lender's mortgage risk.

1-2D. LENDER VERIFIES SAVINGS — Lender confirms borrower and co-borrower checking and savings accounts claims to determine if they are adequate to protect the lender's mortgage risk.

1-2E. LOAN COMMITTEE, FHA, OR VA REVIEW — Lender's loan committee or FHA or VA reviews information submitted by the buyer and verified by the mortgage officer to determine whether the mortgage will be made.

1-2F. MORTGAGE COMMITMENT ISSUED — Lender gives buyer oral (less desirable) or written (desirable, if it establishes interest rate and other terms) notice whether mortgage will be made. If financing is denied, the buyer has the right to be given specific reasons of denial in writing. Lender may reconsider, if the buyer can remedy reasons underlying denial.

2. **ASSUME SELLER'S MORTGAGE** — About 20 percent of the buyers of "older" homes will "assume" seller's mortgage, which has a lower interest rate than prevailing interest rates (7:6). Whether the seller's mortgage is assumable will depend upon the mortgage's terms (review the mortgage, and always contact the seller's mortgage lender and request written approval for assumption). "Mortgage assumption" involves lender's review of the buyer's mortgage application (except for FHA or VA mortgages which are assumable without lender approval) and, technically, involves the seller's release of liability if buyer defaults on mortgage repayment (seldom, however, will the lender give the seller a written release of liability for conventional and conventional-insured mortgages). When a large down payment is required to take advantage of an assumption, the buyer may wish to negotiate a contract for deed or second mortgage. Be aware that currently it is becoming more common for lenders to change the terms or to deny assumption of conventional and conventional-insured mortgages.
3. **PURCHASE SUBJECT TO MORTGAGE** — Occasionally, the buyer will agree to make payment on the seller's mortgage. Since the mortgage remains the obligation of the seller, the lender may not review the buyer's repayment ability. (Note: most lenders today could and would foreclose if they learned the buyer had sold the property to which a conventional or conventional-insured mortgage is secured without informing the lender.)
4. **OBTAIN CONTRACT FOR DEED** — When a buyer has difficulty obtaining desired financing, a "contract for deed" (CD) may be used. This involves a written agreement that the buyer will make installment payments (or principal and interest together or of interest alone with the principal due at the end) to seller, and the seller will give the buyer the deed when contract has been "satisfied." CD's, while occasionally beneficial, involve greater risk for the buyer; thus, independent legal advice is critical.
5. **PAY CASH** — About 2 percent of the buyers of "older" homes in urban areas pay cash (in rural areas, the percentage is higher) (9:6).
6. **RECEIVE UPDATED ABSTRACT** — By custom and purchase agreement conditions, it is the seller's responsibility to provide an updated abstract of title (summary of legal record of ownership) to the buyer's attorney or lender.
   - 6-1. *OBTAIN PRELIMINARY TITLE OPINION* — An attorney representing lender's title insurance company (or lender's attorney, or in cases of non-mortgage purchases, the buyer's attorney) will review the title abstract (or, if torrens property, the registered property abstract) to determine whether ownership can be transferred free of legal claims. Subsequently, the attorney will deliver a "preliminary title opinion" to the lender or buyer. If the opinion or binder is addressed or issued only to the lender, the buyer will have to make additional arrangements if he desires to specifically protect his own interests.
   - 6-2. *CLOUDED TITLE* — If the attorney believes the title is not free of legal claims (e.g., judgment, mechanics, mortgage or tax liens), the lender or buyer is informed of these title "clouds" or "defects."
     - 6-2A. REQUEST SELLER TO CLEAR CLOUDS — The lender, if any, will require (and the buyer not obtaining a mortgage should insist) that seller clear any "defects" or "clouds." Mortgage liens usually are satisfied at the closing.
     - 6-2B. RE-EXAMINE TITLE — A "clouded" title should be re-examined by an attorney to determine if the "clouds" have been "satisfied" and removed from legal records. If the "clouds" have not been removed, the buyer, under guidance of his or her attorney, may wish to renegotiate the purchase agreement and clear the "clouds," to cancel the agreement and demand return of earnest money, or to sue the seller to achieve compliance with the agreement.
   - 6-3. *FORWARD TITLE OPINION* — The attorney forwards the title opinion to the buyer; or, if a mortgage application has been submitted, the opinion or "title insurance binder" is forwarded to the lender and/or title insurance company.
7. **INITIATE TERMINATION OF PRESENT HOUSE** — Upon signing of the purchase agreement, the buyer begins the process of terminating financial and legal obligations associated with present housing.
   - 7-1. *INITIATE SALE OF HOME* — Owners occasionally choose to rent their current homes, although the vast majority of owners attempt to sell the home before closing on the new dwelling.
     - 7-1A. LIST WITH AGENT — The majority of owners (about 75 percent, higher in urban areas) will list their homes with a real estate agent (obtain *Home Sellers Guide*, EF 288, available from the Minnesota County Extension Offices).
     - 7-1B. SELL WITHOUT AGENT — A significant proportion of sellers (especially in rural areas and high demand urban areas) choose to sell their

homes themselves (obtain *Home Sellers Guide*, EF 288, and *Selling Your House Yourself*, EF 302, available from the Minnesota County Extension Office).

7-2. *WRITTEN NOTICE TO LANDLORD* — Renters are legally obligated to give a written notice to the landlord at least one complete rental period in advance of moving. If a written lease obligates the renter beyond the desired date of moving, the landlord may give permission to sublease or assign the lease. Legal questions should be directed to an attorney.

7-3. *COMPLETE HOME SALE* — The majority of homes are sold within 2 months (76 percent in the Minneapolis area) which is usually within the normal period between signing the purchase agreement and closing on the new dwelling.

7-4. *NEGOTIATE SWING LOAN* — An owner not completing sale of his or her home before closing on a new home (more likely in rural areas or when selling during late fall and winter), may wish to negotiate a "swing loan" with the lender (loan amount and interest due after sale or at the end of a specific period of time).

8. **OBTAIN PROPERTY INSURANCE** — Lender will require buyer to arrange for "fire and hazard" insurance before closing ("binder of insurance" is often necessary at closing). Usually, it is in the best interest of the buyer to shop around for insurance. Although most lenders will be happy to arrange for insurance, federal regulations prohibit lenders from requiring the purchase of insurance from a specific source as a condition of receiving a mortgage.

9. **INITIATE OTHER CHANGES (Utilities, Phone, Mail, Moving, etc.)** — Approximately 2 weeks before closing, the buyer should coordinate final details of changing utilities, phone and mail service, moving arrangements, etc. with the seller.

10. **CLOSING (Involving Financing)** — Closing process involves executing purchase agreement terms. Process and location of closing may, however, vary:

— when a mortgage is involved, the closing is conducted by bank, savings and loan association, or other representative of: 1) financial institution; 2) real estate broker's office; or 3) title insurance company.

— when a contract for deed or "purchase subject to mortgage" agreement is involved, generally conducted by buyer's attorney at buyer's attorney's office.

— for other types of financing, FmHA, VA-Direct (uncommon), etc., as arranged.

— process of closing, while similar to #12, #13, #14, and #15, will vary according to individual handling closing; thus, if details and explanations have not been received at least 24 hours prior to the closing, the buyer should request a step-by-step explanation including what is expected of the buyer. When mortgage financing is involved, federal law requires the lender to furnish two documents at the closing: 1)a "Truth in Lending" statement which discloses the "true" annual interest rate and 2)a "settlement statement" listing all closing costs, prepayment expenses and other charges expected to be paid by both buyer and seller.

11. **CLOSING (Involving Cash Purchase)** — Closing process when buyer is paying cash is simpler, usually takes place in buyer's or seller's attorney's office or real estate agent's office. Nevertheless, if details and explanations have not been received at least 24 hours prior to the closing, the buyer should request a step-by-step explanation including what is expected of the buyer.

12. **REVIEW CLOSING STATEMENT** — At closing, both buyer and seller are provided itemized written statements summarizing prepayment and closing expenses each is expected to pay. The division of these expenses is determined by the terms negotiated in the purchase agreement, or "local custom."

13. **PAY PREPAYMENT EXPENSES** — The buyer will always be expected by the lender to pay certain expenses in advance including:

13-1. *INTEREST* — Will range from nothing up to 8 weeks interest depending on the date of closing and the date of the first mortgage billing.

13-2. *PROPERTY TAXES* — If the lender offers and the buyer elects, the lender will collect ("escrow") on a monthly basis and pay property taxes on the property in which case the buyer may be requested to pay the portion of property taxes "escrowed" between the closing and date of the first mortgage billing. In addition, the buyer will be expected to pay the remaining property taxes due for the year ("custom") unless the purchase agreement requires the seller to do so.

13-3. *MORTGAGE INSURANCE* — If the buyer is obtaining a "conventional-insured" mortgage, the buyer generally is expected ("custom," but negotiable) to pay an insurance premium ranging from ½ to ¾ percent of the mortgage amount. Some lenders will allow the buyer to pay the premium at a fixed monthly or yearly rate through the initial first few years of the mortgage, rather than in a lump-sum at the closing.

13-4. *PROPERTY INSURANCE* — All mortgage lenders will require the buyer to have fire and hazard insurance at the time of closing. Insurance may be handled in one of two ways: 1) the buyer obtains and pays for a 1 year policy prior to closing and provides evidence of coverage (i.e., a "binder" provided by the insurance agency); or 2) if the lender offers and the buyer elects, the lender will collect ("escrows") on a monthly basis and pay future insurance premiums (in which case at the closing, the buyer will be expected to pay the portion of the premium due between the closing and the first mortgage billing, as well as the first year's full premium).

14. **PAY CLOSING COSTS** — The buyer always will be expected ("custom") to pay for certain expenses associated with obtaining financing and transferring ownership.

14-1. *ORIGINATION FEE* — Most lenders will charge a fee of about 1 percent of the mortgage amount to cover expenses involved in preparation of mortgage documents, establishing accounts, legal services, and so on. Occasionally, this fee may include a number of the following charges when a conventional or conventional-insured mortgage is made. For FHA, VA, and MHFA mortgages, the following charges usually are added to this fee. For FmHA mortgage, there is no origination fee, although charges of $50 to $150 for legal services and $75 to $100 for deed recording and other items will be made.

14-2. *APPRAISAL FEE* — Most lenders will charge $50 to $150 for their own or a contracted appraisal of the house. (Note: this appraisal is to protect the interest of the lender; thus, the buyer may wish to obtain his or her own appraisal.)

14-3. *CREDIT FEE* — All lenders will charge about $10 for credit reports.

14-4. *LENDER TITLE INSURANCE FEE* — Most lenders will obtain a title insurance policy for protection against loss if the title is "defective" and charge the buyer about $2.50 per $1,000 of the mortgage amount, plus a "service charge" of approximately $70. To protect his or her own investment,the buyer(s) may wish to invest $3.50 per $1,000 of the total price of the property (plus the $70 "service" charge) to obtain an "owner's" or "fee" as well as "lender's" policy of title insurance. This fee will be less ($1 per $1,000) if the buyer obtains a policy at the same time the lender does ($2.50 per $1,000) or if the buyer obtains a "reissue" policy from the seller's title insurer (if any). If the buyer does not obtain an "owner's" policy of title insurance, the buyer should have his or her attorney review the title (usually costs $60 to $120 or more, depending on services rendered.)

14-5. *DEED RECORDING FEE* — Most lenders will pass on to the buyer the costs of recording the deed with the county recorder (generally less than $10, depending on the length of the deed and the county fee schedule).

14-6. *MORTGAGE REGISTRATION TAX* — By "custom," most buyers will be expected to pay the state registration tax of $.15 per $100 of mortgage financing obtained. (Note: This expense currently is an allowable income tax deduction.)

14-7. *SURVEY CHARGE* — Either buyer or seller may bear the expense of a survey (as negotiated in the purchase agreement; usually costs $75 or more). A survey is desirable if there is any question about property boundaries and if title insurance is not obtained.

14-8. *OTHER* — According to the terms negotiated by buyer and seller, the buyer may be expected to pay the following expenses:

— state deed transfer tax — by "custom," usually paid by the seller, as required by state statute, although may be negotiated otherwise (in Minnesota, the deed tax is $2.20 per $1,000 and $1.10 for each additional $500 fraction of the actual cash passing from buyer to seller).

— unpaid special assessments — generally by law must be paid by seller if the buyer obtains an FHA, FmHA, MHFA, or VA mortgage or by either the seller or buyer as negotiated in the purchase agreement if a conventional or conventional-insured mortgage is obtained or a mortgage assumption or a contract for deed is used (amount will depend upon assessments made for streets, sidewalks, water, and sewer). (Note: in the opinion of some attorneys the seller is legally obligated to pay levied assessments and liens whenever the purchase agreement requires the seller to deliver a marketable title.)

— liens — unpaid judgment, mechanics, mortgage, and tax liens must be cleared before clear title is transferred and, by law, they are the responsibility of the seller unless negotiated otherwise.

— "Satisfaction of Mortgage" and "No Judgment Affidavit" — are two documents that serve as legal record that the mortgage has been satisfied and that the seller has no judgment liens on the property; the fee for each of these documents is about $5. They will be the legal responsibility of the buyer unless negotiated otherwise.

15. **PAY DOWN PAYMENT BALANCE** — At the closing, the buyer will be expected to pay the balance of the down payment (purchase price agreed in the purchase agreement, minus both the earnest money deposit and mortgage amount).
16. **REVIEW AND SIGN DOCUMENTS** — In addition to paying for assorted fees and charges, the buyer will be expected to sign a number of documents at the closing including:
    16-1. *PROMISSORY (or mortgage) NOTE* — A written, legal document signed by the buyer promising to repay the mortgage debt at a stated interest rate during a specific period of time.
    16-2. *MORTGAGE* — The written, legal document granting the lender the right to seize and sell the property should the buyer fail to repay the debt as outlined by the promissory (or mortgage) note, or if the buyer fails to pay property taxes, fire and hazard insurance, maintain the property, or otherwise perform as agreed.
    16-3. *CONTRACT FOR DEED* — When CD financing is involved, the buyer will be expected to sign the contract which is a legal agreement binding the buyer to make periodic payments to the seller, and for the seller to subsequently give the buyer the deed when the contract has been satisfied.
    16-4. *CERTIFICATE OF REAL ESTATE VALUE* — To record the deed, the buyer or his or her representative, should review and must sign this certificate. The certificate declares the details of the sale, is sent to the Minnesota Department of taxation, and may affect the buyer's property taxes.
17. **OCCUPANCY** — The process of buying a home is largely completed (except for remodeling and "settling-in") with possession and occupancy.
18. **DOCUMENTS RECORDED** — After the closing, the lender's or buyer's attorney records the legal documents transferring ownership: deed, mortgage or contract for deed, Certificate of Real Estate Value (purchase price minus amount of assumed mortgage and personal property), and so on. If the seller has not received homestead exemption, the buyer should file an application immediately.

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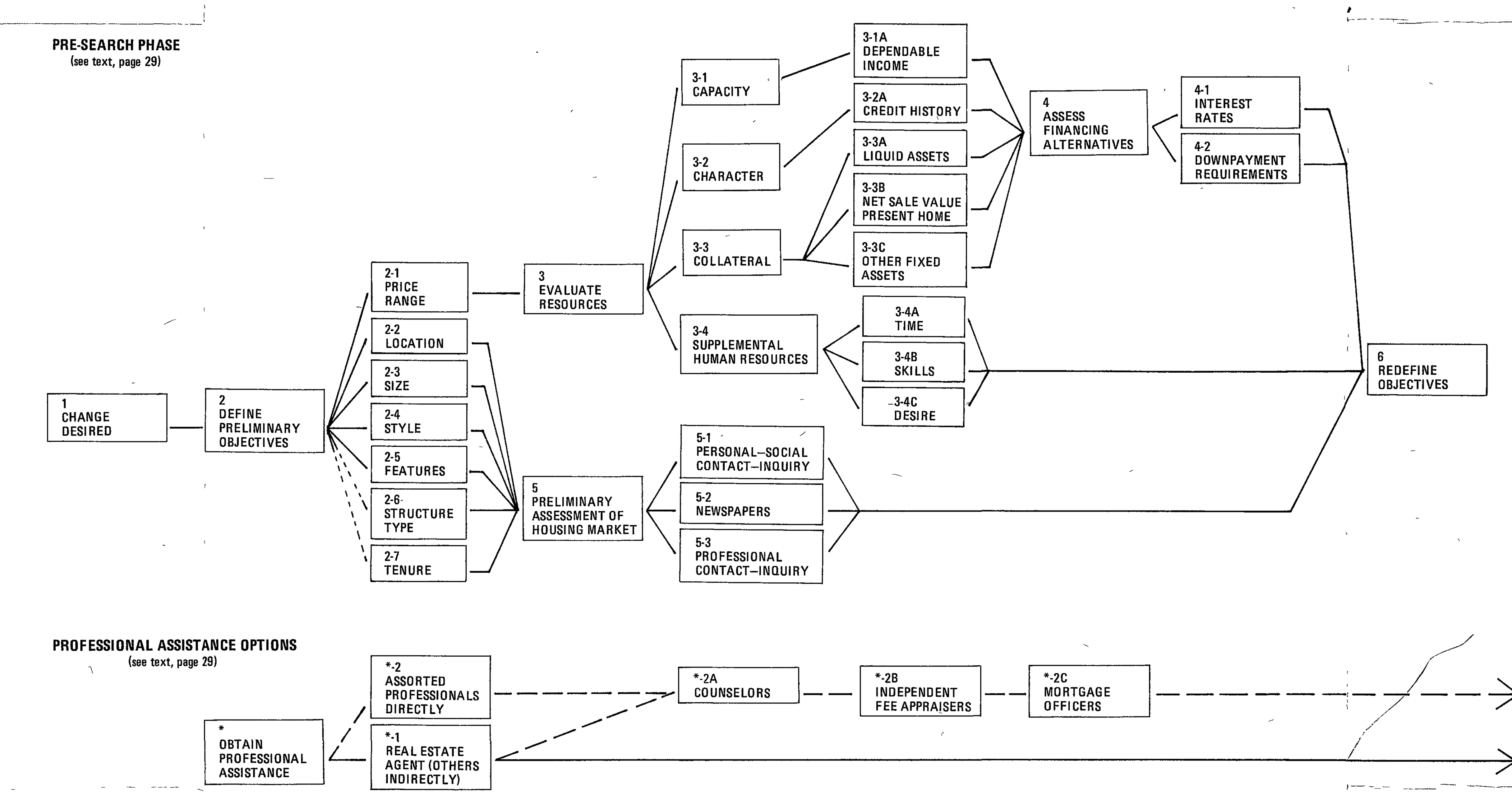
SEARCH PHASE
(see text, page 31)

POST-SEARCH PHASE
(see text, page 34)


PRE-SEARCH PHASE
(see text, page 29)
1 CHANGE DESIRED
2 DEFINE PRELIMINARY OBJECTIVES
2-1 PRICE RANGE
2-2 LOCATION
2-3 SIZE
2-4 STYLE
2-5 FEATURES
2-6 STRUCTURE TYPE
2-7 TENURE
3 EVALUATE RESOURCES
3-1 CAPACITY
3-2 CHARACTER
3-3 COLLATERAL
3-4 SUPPLEMENTAL HUMAN RESOURCES
3-1A DEPENDABLE INCOME
3-2A CREDIT HISTORY
3-3A LIQUID ASSETS
3-3B NET SALE VALUE PRESENT HOME
3-3C OTHER FIXED ASSETS
3-4A TIME
3-4B SKILLS
3-4C DESIRE
4 ASSESS FINANCING ALTERNATIVES
4-1 INTEREST RATES
4-2 DOWNPAYMENT REQUIREMENTS
5 PRELIMINARY ASSESSMENT OF HOUSING MARKET
5-1 PERSONAL–SOCIAL CONTACT–INQUIRY
5-2 NEWSPAPERS
5-3 PROFESSIONAL CONTACT–INQUIRY
6 REDEFINE OBJECTIVES
PROFESSIONAL ASSISTANCE OPTIONS
(see text, page 29)
* OBTAIN PROFESSIONAL ASSISTANCE
*-2 ASSORTED PROFESSIONALS DIRECTLY
*-1 REAL ESTATE AGENT (OTHERS INDIRECTLY)
*-2A COUNSELORS
*-2B INDEPENDENT FEE APPRAISERS
*-2C MORTGAGE OFFICERS