



# A HOW TO GUIDE ON HOME BUYING



Practical tips for first-time homebuyers  
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## PRACTICAL TIPS FOR FIRST-TIME HOMEBUYERS



Dear Friend,

Though it can easily be broken down by numbers, the benefits of home-ownership are truly beyond measure.

Sure, having a stake in the real estate market can be financially rewarding, but there are so many other reasons why owning your own home is often linked to the idea of the American Dream.

Homeownership means investing in the well-being of our communities because it inspires long-term thinking about the broader environment in which we establish our roots, including our neighborhoods, our schools, our civic organizations, our religious institutions, our local governments.

It gives us a reason to sweep the sidewalk, plant flowers outside our front windows, care more deeply about the fate of our schools, forge lasting relationships with the people on our block, and to have a greater interest in the safety of our streets.

I hope this brochure on the home-buying process will help provide a crucial first step in your plan to pursue this essential component of the American Dream.

In addition to a step-by-step guide to the home-buying process, I offer information here that will help you avoid some of the notorious pitfalls of home-buying, which includes the increasingly common problem of "predatory lending."

Please feel free to contact my office if you have any questions about where to look for additional assistance.

Sincerely,

*Roxanne Persaud*

Senator Roxanne J. Persaud

# A Step-by-step Guide To Buying A Home

**F**inding an affordable home that suits your needs and wants can be tricky. Now add to that the complicated process of crunching the numbers to make sure your financing decisions are sound. It's enough to make even a pro feel uneasy!

Actually, buying a home doesn't have to be painful. Real estate experts offer these step-by-step tips to help first-time buyers get their feet wet.

**1. Ask yourself: 'What can I afford?'** Even before you begin combing through the housing market, take time to review your monthly expenses and consider what size **mortgage** payment you can afford. The U.S. Dept. of Housing and Urban Development's website ([www.hud.gov](http://www.hud.gov)) offers a mortgage calculator to help you make this judgment based on your existing income and expenses. You should also begin saving for a **down payment** early on. The more you can pay upfront, the smaller your monthly loan payments will be.

**2. Evaluate your needs and wants.** Don't step into the process with a vague idea of your goal. Think about what size or age house you want, where you'd prefer to live, and whether or not you can handle a "fixer upper." Pinning down details like these in advance will help you focus your search.

**3. Investigate loan options.** After examining your budget, meet with a lender to discuss financing. You'll want to ask about **interest** rates, loan types, and potential **closing** costs. Shop around for the best rate, and request a **pre-approval** letter. In order to issue a **pre-approval** letter, the lender will need to review your finances, including credit reports, bank statements, tax returns, etc. Then, when you begin looking at homes, bring the **pre-approval** letter along as proof to sellers that you are a serious buyer.



**4. Start home shopping.** It's your choice whether to go it alone or employ the services of a real estate agent. An agent uses market data and his or her knowledge of the home-buying process to find a home that fits your needs, wants, and budget. Most realtors charge a **commission** that either you or the seller must pay, so be sure to ask about the costs early on.

To compare services, interview several agents before signing a contract and don't hesitate to request client references. (You may also want to ask a friend or co-worker who can recommend a dependable agent.) Also, be sure to discuss the exact nature of your relationship to the agent. Is he or she working on your behalf or on behalf of the seller?

**5. Choose a lawyer.** A real estate attorney should be your main advocate during the home-buying process, so seek one out well before you make an initial offer on a house. He or she will also help tie up any legal loose ends before the deal is finalized at the closing.

**6. Make the offer.** Once you've found a home that falls within your price range and matches your needs and wants, it is time to make an offer. If you are working with an agent, he or she can help you decide whether the seller's **asking price** is reasonable based on comparable homes recently sold in that market.



► Remember, if your offer is too low, the seller might not even consider it. However, if it is too high, you may end up paying much more for the house than what it is truly worth. Eventually you'll sign a **purchase-and-sale contract**, which should first be reviewed by your lawyer. Be sure that the contract contains an inspection **contingency**, which allows you to cancel the contract should the home require expensive repairs.

### 7. Secure final loan approval.

If the seller accepts your offer, you'll need to apply for final loan approval. Though a bank may have already **pre-approved** your loan request, the final approval process is more rigorous and involves an appraisal of the property's value so the lender can ensure that its potential investment in the property — its loan to you — is secure.

**8. The inspection.** Shortly after your offer is accepted, you'll want to find a home inspector. Again, you may want to consult a friend or co-worker for a referral. Also, ask the inspector if he or she has been certified by the American Society of Home Inspectors (ASHI). Your agent, if you have one, can schedule a time for the home inspection. During this appointment, the inspector will accompany you on a tour of the house as he or she observes its overall condition. Take notes and be sure to ask questions, especially if the inspector notices anything of concern. The inspector should provide you with a detailed report of his or her findings at the end of the appointment. If the inspector notices any major problems, you may be able to cancel your contract or negotiate a cost-sharing arrangement with the sellers to make repairs.

**9. Set a closing date.** The closing usually takes place at the lawyer or lender's office. Prior to this date, be sure to ask your lawyer whether the

terms of your contract have all been met. He or she will also provide an exact tally of your **closing costs** so you can bring your payment to the appointment.

Remember to take careful notes and to keep files of all documents obtained throughout this process. Experts recommend even keeping a journal of each day's developments. For more home-buying advice, visit the U.S. Dept. of Housing and Urban Development's Web site at **www.hud.gov**. You may also want to pick up a comprehensive home-buying guide at your local library or bookstore.

## Home-buying Glossary

**Knowing the following terms will help you navigate the complex process of buying a home**

**Asking price:** the price a seller initially lists for the sale of a home.

**Closing:** a meeting in which the buyer, seller, and professionals working on their behalf finalize the sale.

**Closing costs:** costs associated with the processing of a real estate transaction that are paid at the closing. These include attorney's fees, deed recording fees, appraisal fees, and taxes, none of which are included in the price of the property.

**Commission:** the fee a real estate agent charges for services, oftentimes a percentage of the home's sale price.

**Contingency:** language written into the purchase-and-sale contract that exempts a party from contractual terms if certain conditions aren't met. Some contingencies allow the buyer to cancel a contract if conditions of a real estate inspection report are not met or if a party's lawyer does not approve of the contractual terms within a certain window of time.

**Down payment:** the amount of the sale price that a buyer pays upfront in cash, separate from the amount borrowed. For example, a buyer who makes a ten percent down payment on a \$200,000 home pays \$20,000 down and will need to borrow \$180,000.

**Interest:** the extra amount that must be paid for money borrowed. Interest is usually calculated as a percentage of the loan amount and is paid monthly to one's lender.

**Mortgage:** a loan issued for the financing of a real estate purchase.

**Pre-approval:** a lender's preliminary commitment of a loan to the borrower. Pre-approval does not guarantee final approval.

**Purchase-and-sale contract:** a written, legally-binding agreement establishing the terms of a property sale.

**Subprime lender:** a lender that offers financing at an interest rate that is higher than the rate for standard loans. Usually, a subprime loan applies to individuals whose financial standing or low credit rating make them ineligible for a standard, or "prime," loan.



## Ask yourself: 'What can I afford?'

Just as a too-good-to-be-true **asking price** might sound the alarm about a risky home purchase, buyers should also take caution whenever a lender makes overly promising loan offers.

Fair housing experts warn of "predatory lenders," those who coax individuals into borrowing well beyond their means while charging high interest rates and/or imposing excessive fees, often times for bogus services. In the worst cases, these lending practices saddle consumers with enormous debt, even costing them their homes.

Borrowers are advised to watch out for **subprime lenders** in particular. Though not always "predatory," a subprime lender will offer financing – sometimes at double-digit interest rates – to individuals whose financial standing or low credit rating would otherwise make them ineligible for a standard loan.



## OTHER PLACES TO LOOK:

### Experts offer additional advice on how to avoid potential home financing traps:

- Beware of loan packages advertised on television, radio, door-to-door, or over the Internet, especially those that use pushy marketing tactics.
- Avoid loans with extraordinarily high fees. According to the Center for Responsible Lending, fees for "predatory loans" often amount to five percent or more of the original loan total.
- Do not sign a loan document that contains any blank lines. Be sure to read the terms of your loan very carefully and consult a counselor if necessary.
- Inquire about prepayment penalties. Some lenders charge costly fees for paying off a mortgage early. This practice discourages borrowers from re-financing with another lender should they become eligible for a better interest rate in the future.

*To learn more about mortgage counseling services and your legal rights during the home-buying process, consult the following sources:*

#### • U.S. Dept. Of Housing and Urban Development:

**New York City branch** 212-264-8000  
**Albany branch** 518-464-4200  
**Buffalo branch** 716-551-5755  
[www.hud.gov](http://www.hud.gov)

#### • Department of Financial Services: [www.dfs.ny.gov](http://www.dfs.ny.gov)

• **The New York State Consumer Protection Board** offers information about credit and credit reports: 1-800-697-1220; [www.dos.ny.gov](http://www.dos.ny.gov)

Visit the U.S. Dept. of Housing and Urban Development website at **[www.hud.gov](http://www.hud.gov)** to learn more about "predatory lending" and to find information about mortgage counseling services in your area. Your local consumer protection or affordable housing agency may also provide guidance and can be a valuable resource for victims of unethical lending practices.

