

STEP NINE

MORTGAGE CLOSING & ISSUES FOR NEW HOMEOWNERS

The closing occurs at the NACA office, where you conduct the formal transactions concerning the mortgage and the purchase of the house. The seller, the listing broker/agent, the NACA Buyer's Agent or selling agent, and the settlement agent will usually be present at the closing. Other NACA staff will be available to answer any questions or address any concerns.

Preparation for the Closing

- Prior to the closing, you will have to buy one year of hazard/homeowner's insurance. The insurance binder must be given to the Housing Consultant soon after receiving loan approval. The lender must be designated as the recipient (loss payee) of the insurance policy.
- You should contact the NACA Office to determine how much money, if any, you will have to bring to the closing to cover the escrows and pre-paid items (taxes, insurance and interest), as well as voluntary interest rate buy-downs. Sometimes the earnest money deposit will cover these items.
- You need to bring a certified check or bank check to the closing to pay for escrows, pre-pays and/or other costs.

Walk Through

One of the most important tasks you will perform in the whole purchase process is the pre-closing walk-through. One of the worst nightmares you can have is to unlock the door to your new home and discover that the property is a mess, promised repairs were not made, or that a tenant who was supposed to move out has not. While you may be in the middle of moving and may have given notice to your landlord, you need to immediately address any problems with your new home. A problem that may have taken a short time to resolve can ruin your home buying experience and cause long-term problems.

If you determine that there is damage to the property, that repairs were not completed or that tenants have not vacated, *you must address these issues before closing*. Once you close and own the property, it will be extremely difficult to fix the problems. If the seller does not cooperate, you will have to sue them, which may cost more than the repairs. If there are tenants, it may be both expensive and difficult to evict them. You must notify your Housing Consultant of any violations of the Purchase and Sale Agreement. If you have retained an attorney, you should inform him or her of your concerns. If you are using a NACA Buyer's Agent or Referral Agent, he or she should be able to assist you.

Your options may be limited. If the repair problems are serious, NACA or the lender may stop the closing. Other options include demanding that the seller put money in escrow to make

repairs or clean up the property. If the seller agrees, the settlement agent can hold the money and pay it either to the seller when the conditions are met, or to you once you provide them with receipts for the work (you cannot collect cash at the closing).

Again, no matter how much you are working on your move, you do not want to start your homeowner experience with a nightmare of repairs and problems that you would not have the time or resources to fix.

The Closing

While most closings go smoothly, many buyers use attorneys to make sure that everything they negotiated in the Purchase and Sale Agreement has been satisfied and to help protect their interests in case there is a dispute. If you did not retain an attorney, you should make sure that you understand what the seller agreed to do and that all conditions have been met. Your NACA Buyer's Agent or Referral Agent can assist you with these issues.

If you are purchasing a property with tenants, make sure that if the seller has collected last month's rent or security deposits from the tenants, they have transferred the funds to you. You will be responsible for both when the tenant asks for them. Make sure that the utility bills are paid and any adjustments needed are made. This is true for taxes also—you may actually owe the seller for taxes already paid. The settlement agent should be able to confirm these issues, but the settlement agent may represent the bank, so you should protect your own interests.

You and the seller will need to sign a number of documents in order to transfer the title of the property. One of the important documents is the HUD-1 Settlement Statement, which summarizes all the financial aspects of the purchase and the loan you have obtained. Each of these costs, charges and adjustments are itemized separately and should be explained to you by the attorney or settlement agent. The statement serves as your receipt for all sums that you pay in connection with the purchase.

Documents you will sign include the following:

- **Deed:** The legal instrument that is signed by the seller(s) that transfers title to the property from the seller(s) to you.
- **Note:** The instrument that constitutes your written promise to repay the money loaned to you by the lender. It creates a personal obligation to repay and sets forth the terms (i.e. interest rate, monthly payment) for repayment.
- **Deed of Trust or Mortgage:** The instrument by which you grant a lien upon the purchased real estate to the mortgage lender to secure your promise to repay the note. It also authorizes the lender to institute a foreclosure sale of the property if you fail to repay the loan as agreed.
- **Truth-in-Lending Disclosure:** Summarizes the actual costs associated with the loan you have obtained.

You will have the opportunity to purchase various insurance policies at the closing. All are optional except the homeowner's insurance and, where appropriate, flood insurance.

Please take your time with this process and get all your questions answered by the attorney or settlement agent or NACA staff. Once you sign all the papers, you will be the new owner of the property. Generally the loan will fund the same day you close. Funding allows the seller to be paid, at which time they will turn the keys over to you. You can move in immediately. You should contact the utility companies a day or two before you close to schedule hook up of electricity and water. Oh, and remember to change the locks. 😊

Congratulations on a dream come true!

DEALING WITH INITIAL PROBLEMS

You should be prepared for the possibility that some problems were not detected during the home inspection. While you may have recourse, it can be problematic to address these issues once you own the house. These may include:

- Appliances that don't work properly (refrigerator, dishwasher, disposal, etc.).
- Minor annoyances such as sticking doors or windows, peeling paint, leaky faucets.
- More serious hidden defects including problems with structural integrity, plumbing, heating/cooling and electrical systems, the roof, etc.

Older Homes:

- Unless you acquire an extended home warranty from the seller in writing (for example in your purchase agreement), you are *not* protected in cases of defects.
- You are probably protected if you buy a newly renovated house from HUD/FHA (this warranty against major defects usually extends for one year after purchase).

Newly Constructed Homes: (You are the first owner)

- You have an “implied warranty” from the builder that the house does not have major defects and that all systems will work properly. Be prepared to argue with them about fixing major and minor problems. You should not close on a new home if there are still repairs to be done, even minor issues. There's less incentive once they have their money.
- You may get a written warranty from the builder as part of your Purchase Agreement or under the Homeowner's Warranty Program sponsored by the National Association of Home Builders.
- Homes subsidized by HUD/FHA under Section 235 are warranted for a period of one year from the date of purchase.

Remember: The appraisal by the lender, FHA or Title Insurance Company does not mean that the house is approved or warranted against any defects. You are ultimately the only responsible party. Don't let anyone tell you differently.

KEEPING GOOD RECORDS

You must keep good records for your house. This is your insurance against lenders or creditors who claim that you did not make a payment and contractors with whom you may have a dispute. NACA recommends that you have at least the following and keep them in your NACA briefcase:

Records of your purchase and ownership of the house:

- Receipts for the money paid at or before the closing (loan disclosure statement)
- Copy of the Mortgage or Deed of Trust
- Copy of the Note
- Copy of the Truth-In-Lending Disclosure
- Copy of the HUD-1
- Your warranties on the house (if any)
- FHA- or VA-related documents

Insurance records:

- Copy of hazard or homeowner's insurance policy
- Mortgage, life or flood insurance policies
- A list of your personal property in the home and its value (photographs of each room are helpful)

Maintenance, Repairs and Home Improvement records:

- Utility bills and receipts
- Receipts for any repairs (including labor and materials)
- Warranties on any items in the house (equipment and appliances)
- Description of any improvements you have made to the house and documents or receipts showing the cost of the work

Tax and Mortgage Payment records:

- Receipts of all payments made to your mortgage lender (real estate taxes and mortgage interest payments are deductible from your income for tax purposes)
- Annual statements from the lender showing how much principal and interest you've paid
- Other receipts for local taxes or assessments you have paid

Other records:

- Homeowner's association dues paid
- Other payments you may have made for your home, such as condominium or cooperative association dues and maintenance expenses

Remember: Save your cancelled checks as they may be your only receipt.

MAKING YOUR MORTGAGE PAYMENTS

Mortgage payments are due the first day of each month and cover the previous month's principal and interest. It is very important for you to make your payments on time. Lenders will not accept partial payments; therefore, it is important that you stay on track and make your full mortgage payment each month.

Each month you should receive a statement of the amount you owe the lender. The statement usually includes:

- Total payments in the current year for interest and principal, real estate taxes and hazard insurance.
- How much is due for interest and principal payments on the loan, real estate taxes, hazard insurance and the NSF.
- The balance of the loan.
- Late payment charges you will incur if you do not pay on time.

Alternatively, you may receive a year's supply of coupons or payment cards to mail to the lender each month with your check.

Late Payment Charges:

- Whenever you make a late payment, you may be charged a fee.
- Late payment charges usually range from 1% to 5% of the amount you owe the lender for the month. They can be higher.
- *Some* lenders may allow you a "grace period" (for example to the 15th of the month), during which they will not charge you a fee.
- Whenever you do not pay the lender on time, you are delinquent on the loan.

Delinquency is Serious:

- If you know you will not be able to make your payment, you should contact NACA so that we may assist you and prevent you from losing your home.
- Late payments hurt your credit.
- Late payments hurt the NACA program and may affect our ability to continue to provide this opportunity to others.
- Excessive late payments could prohibit future use of the NACA program.
- The lender may advise you that you are in default on the loan.
- The lender may add substantial attorney's fees
- The lender will probably be more accommodating if you have a good history of on-time payments.

Remember: Late payments hurt not only you but NACA and the other working people who want to purchase their first home!

OWNING A MULTI-FAMILY HOME AND BECOMING A LANDLORD

Getting Tenants:

- Interview several applicants before choosing. In most cases, you can obtain rental applications from local real estate offices.
- Always ask for prior landlord references. Did they pay rent on time? Did they respect the property? Would the landlord rent to them again?
- Ask for current and past employers. If they aren't employed consistently, they may not make consistent rent payments.
- Obtain the first month's rent and security deposit prior to your tenant moving in. Some states require you to put the security deposit in a separate escrow account, which is a good idea even where not required.
- If they are paying by check, remember that it takes approximately three days for a local check to clear and up to ten days for an out-of-state check to clear.
- If you want a tenant to commit for a fixed period of time, have them sign a lease. You may be able to get a sample lease from your real estate board.

Protecting Your Cash Flow:

- Save enough money to cover your entire mortgage payment for at least three months.
- Develop a savings account for emergencies. Replacing the furnace costs approximately \$4,000. Repairing a leak could cost from \$100 to \$2,000 or more. Roof replacement is approximately \$4,000 to \$7,000.
- Set up an escrow account for security deposits; your bank will help you. Security deposits can be used to make necessary repairs if your tenant damages the property.

Make and Enforce Rules:

- Develop, write down and provide copies of rules for the units to the tenants. These include when the tenant owes rent, whether they can have pets or clothes washers and what they can do to the units. You have the right to set almost any rules you want as long as they do not discriminate against people.
- Make sure you enforce the rules. Check with your local courts to find out what actions you should take if a tenant does not pay rent on time. You do not want your tenant to get into the habit of not paying rent.

Maintenance and Repair:

- Develop a checklist of all the parts of your rental units. It should identify the condition of the walls, ceiling, floors and windows in all the rooms, the kitchen appliances and fixtures, the bathroom fixtures and any other items in the unit. Use this checklist every time a tenant moves in and at least once a year.
- You must keep your apartments in compliance with your state or city housing code. This means you must fix problems when they occur and make sure the plumbing, heat, electricity and appliances are working.
- Unless you do repairs yourself, keep a list of good trades-people. You may need to call a plumber or other repair person on a moment's notice. Your NACA office can give you leads or you can ask your friends and neighbors for referrals.
- Before any trades-people perform work, you should get a written contract stating what they will do and how much it will cost.

Only *you* can protect your investment. Owning a multi-family home has many rewards and responsibilities. The more prepared you are, the more rewarding it will be.

WARNING – DO NOT OVER EXTEND YOUR CREDIT

Moving into your home is exciting and you will want to fix it up to be just as you dreamed. Be careful, however; this is not the time to charge up your credit cards and add additional debt payments. If you saved prior to purchasing your home, you should be able to afford the basics that you will need, such as curtains and lawn care items. Unless you have saved a considerable amount, do not expect to refurnish your home in the first few months. Take your time and try to save money before purchasing expensive items. You do not want to get into a situation where you have creditors calling you or you cannot make your mortgage payment on time.

Once you have purchased a home, you will receive many offers for credit cards and home equity loans. Predatory lenders and loan sharks, who may be in the guise of major corporations, are waiting to offer you high-interest loans and steal your home if you cannot make payments. You will probably even receive checks in the mail that can be cashed with just your signature. However, cashing these checks, taking out equity loans or charging on these credit cards only puts your home at risk.

Bankruptcy

Once you are in debt, you will have few options. You may see television advertisements or hear advice telling you that the best way to solve debt problems is by filing for bankruptcy. Bankruptcy, however, will cost you additional money and may not discharge all of your debt. If you are late on your mortgage payment, it will not save your home.

In bankruptcy, there is an important distinction between secured debts and unsecured debts. Unsecured debts, such as a credit card, are dischargeable in bankruptcy, while secured debts are not. Because a mortgage is secured by your home, it is not dischargeable. Neither your current mortgage payment nor your past due payments will be discharged if you declare bankruptcy. In fact, your mortgage payments will increase to cover unpaid amounts and the Bankruptcy Trustee's fee.

Many lawyers and accountants make their money by preparing bankruptcy papers. They may encourage you to file even if it is not in your best interest. The best way to avoid this tough decision is to avoid getting in debt. If you do find yourself in trouble, it is best to consult NACA. NACA can provide extensive assistance, including financial assistance, if you are at risk of losing your home. *NACA cannot assist you if you are in bankruptcy.*