



This Booklet has been provided as a public service by the Connecticut Association of Realtors®, Inc. and by:

WRITTEN BY THE CONNECTICUT ASSOCIATION OF REALTORS®, INC.

For reprints contact:  
McCoy LTD, LLC  
219 Industrial Lane  
Torrington, CT06790

## INFORMATION FOR HOMEBUYERS



# Buying a Home

## WHAT YOU SHOULD KNOW

### Table of Contents

<b>TYPES OF HOME OWNERSHIP .....</b>	<b>1</b>
<b>WORKING WITH A REAL ESTATE PROFESSIONAL .....</b>	<b>2</b>
<b>INVESTIGATING THE PROPERTY .....</b>	<b>6</b>
<b>NEW CONSTRUCTION.....</b>	<b>7</b>
<b>CHOOSING A LAWYER.....</b>	<b>9</b>
<b>OFFER AND CONTRACT.....</b>	<b>12</b>
<b>APPRAISAL AND INSPECTION.....</b>	<b>13</b>
<b>TITLE SEARCH AND INSURANCE.....</b>	<b>15</b>
<b>HOMEOWNER'S WARRANTY .....</b>	<b>17</b>
<b>TYPES OF MORTGAGES .....</b>	<b>18</b>
<b>LOAN APPLICATION CHECKLIST .....</b>	<b>20</b>
<b>FINAL STEPS TO CLOSING .....</b>	<b>22</b>
<b>TERMS TO KNOW.....</b>	<b>24</b>

## WHAT TYPE OF HOME DO YOU WANT?

You will probably look at many homes before you make an offer on one. But even before you begin house hunting, it helps to have in mind the type of home ownership you want and the features that you consider most important.



### TYPES OF HOME OWNERSHIP

- ❖ **Single-family:** This is the most popular type of home ownership. As the owner of a single-family dwelling, you are totally responsible for paying the mortgage, property taxes, and any other carrying expenses, including all maintenance costs.
- ❖ **Condominium, Planned Unit Development (PUD), Time-Shares and Cooperatives:** As the owner of a condo or PUD, you own your living quarters (apartment, townhouse, or other unit) in the same way that a single-family homeowner does. As the owner of a co-op, you buy a share or a number of shares in the corporation that owns and manages the building your apartment is in and the land it is on. Under any of these forms of ownership, you also own a share of the common space, such as gardens, parking areas, and community facilities (e.g., pool, golf course, recreation hall, and tennis court). You pay a monthly maintenance fee for common expenses. The owners' association, which you belong to, makes decisions about how the condo, PUD or co-op is run. The association may provide a variety of services and extra features that single-

family homeowners often can't afford. However, you must obey the by-laws and rules of the association.

- ❖ **Multi-family:** This style of home has separate living quarters for two or more families to rent. The owner may be able to use rent from the tenants to cover his or her own housing costs. These homes are often restricted to certain areas by zoning laws.

## WORKING WITH A REAL ESTATE PROFESSIONAL

### A REALTOR® CAN SAVE YOU TIME AND ASSIST YOU IN HOUSE HUNTING BY:

(This list may vary by agreement between you and the Realtor®)

- ❖ Pre-selecting homes that are within your price range and meet your requirements for size, type, etc.;
- ❖ Scheduling appointments for you to view homes, even when the owners are not there;
- ❖ Advising you about financing options;
- ❖ Giving you current selling prices for houses similar to those you are considering as a basis of comparison;
- ❖ Guiding and directing you in obtaining up-to-date information concerning taxes, school districts, and other information in areas that are of interest to you;
- ❖ Handling negotiations regarding the amount and terms of your offer;
- ❖ Scheduling a house inspection and other inspections that you have requested;

- ❖ Obtaining a Property Condition Disclosure Form and Title X Lead-Based Paint Disclosure where required of the seller;
- ❖ Explaining required state and federal forms;
- ❖ Explaining representation options;
- ❖ Providing you with a choice of professionals, such as attorneys or surveyors, when appropriate; and
- ❖ Providing you with sources for the information that you wish to obtain.

Not all real estate licensees are Realtors®. Membership in the National, State, and Local Associations of Realtors® means that the Realtor® has subscribed to a strict Code of Ethics which is generally more strict than State real estate licensing regulations. Complaints concerning Realtors® who have violated the Code of Ethics may be filed with the local Board of which the Realtor® is a member.

### **THERE ARE DIFFERENT WAYS IN WHICH YOU CAN WORK WITH A REALTOR®**

There are several different ways that you, as a buyer, can work with a Realtor®. When a Realtor® represents you, the Realtor® must keep information about your assets, liabilities, expenses, income, negotiating position, and motivations to buy confidential. The Realtor® representing you will also provide you with the Realtor®'s advice, opinion and experience. You select the type of representation, but keep in mind that there are different advantages to each option. You should ask the Realtor® to explain these different advantages so you may make an educated decision as to which option will work best for you.

Connecticut law requires that the Realtor® furnish you with a written agreement setting forth all the terms and conditions of the representation between you and the Realtor®. The Realtor® must furnish you with this agreement prior to physically showing you a property that is not listed with the Realtor®'s firm.

You may also be unrepresented should you wish to do so, however, you then are not entitled to the Realtor®'s confidentiality, loyalty, opinions or advice. Generally, you will not be represented if you are shown property listed with the Realtor®'s firm.

There are three basic types of representation agreements:

#### **(a) Exclusive Right to Represent**

With this representation, you are giving the real estate firm the exclusive right to represent you. There is no need for you to look at properties on your own and it may be to your disadvantage to do so, as the agent must make a diligent effort to find you a property. A Realtor® exclusively representing a buyer must make a diligent effort to find a property for that buyer.

#### **(b) Open Right to Represent**

Under this type of agreement, you are free to look at properties with other Realtors® and directly with sellers. You are not committed to use that particular real estate firm, and that particular firm is not committed to you as a buyer. However, keep in mind that a Realtor® under this type of agreement may have a legal obligation to bring new listings and other properties to the attention of those buyers they represent exclusively before they bring such information to buyers under an open agreement.

(c) **Exclusive Agency Right to Represent**

This type of agreement is a hybrid of the two mentioned above. Under this form of agreement, you are free to look at properties offered directly for sale by owners, but you agree to work only with the real estate firm to which you have given the exclusive agency buyer representation agreement if a property is listed with another real estate firm.

No matter what type of agreement you sign you should inquire as to commission arrangements. Often, the property is either listed for sale by the firm or is listed for sale by another real estate firm. In such cases, either the seller or the listing broker has agreed to pay cooperating buyer agents. There are circumstances, however, where property is not listed or is being offered for sale by its owner and no one has agreed to pay cooperating buyer agents. Under those circumstances, the buyer agent may ask you to agree to pay the buyer agent's compensation. After all, no one should expect anyone to work for free. Even if you agree to pay the compensation to your agent, you may negotiate for partial or full reimbursement of the compensation from the seller.

On occasion, your real estate firm may have a property listed that you are interested in buying. If this situation should occur, your real estate firm would become a dual agent, as it would represent both the seller and the buyer, and you will then be given a dual agency consent agreement for your review and signature. This dual agency consent agreement lays out the "Rules of the road" of the dual agency relationship. Furthermore, the firm may offer you, the buyer, the option of having another agent from the firm negotiate for you. An agent **designated** on your behalf will be able to advise you on

all aspects of the transaction, including providing you with price information and advice as to the amount of offers, list price, etc. Not all firms offer designated agency.

## **INVESTIGATING THE PROPERTY**

Investigating the property is probably the most important step in buying a property, and, perhaps, one of the simplest to neglect. Most buyers on a mission to find that perfect home have a mental checklist of what's truly important to them, and, while buyers may inherently know what they want, a Realtor® will not know unless told. Asking a Realtor® to find a "good" house in a "nice" neighborhood sounds elementary and obvious, but, a Realtor®'s mental template for "good" and "nice" may be very different from the buyers'.

**In the home-buying process, both the Realtor® and the buyers have responsibilities.** It is the Realtor®'s role to search through listings and find properties to show the buyers. Once the buyers have zeroed in on a property, the Realtor® may supply them with specific information concerning the property obtained from the seller or public agencies. (It is important to note that as this information may be gathered from various agencies and departments that use the information for their own purposes, the information may or may not be up-to-date or accurate.) While the Realtor® is performing his or her job, the buyers should also be engaged in the process. They should be looking for those conditions or aspects of that house or that neighborhood that could make or break a deal for them. So, despite the fact that the buyers may have a lawyer, a lender, a Realtor® and a cadre of home inspectors on their home-buying team, buyers must assume some of the responsibility for the fact gathering. For instance, if the zoning of the property is important so that a home business is permitted, speak with that town's zoning authority. If adding onto the property is in the future plan and the location of the

boundary lines is key, speak with that town's building department. If knowing that a convicted sex offender is living nearby is of paramount importance, check with the Police Department, the State Department of Public Safety or the state's sexual offender registry. Bottom line — be smart and verify the information that is important to your personal buying decision.

**Buying a house isn't something that happens to you it's something you make happen** so, make it what you want by not leaving those issues that are important to you unattended. While your Realtor® has been schooled in many aspects of buying and selling real property, mind reading was not included in the curriculum; therefore, your Realtor® won't automatically know what is important to you. Just because the information you deemed significant wasn't readily available initially, don't assume that it will magically materialize later on in the process. **If there are conditions or issues that are of particular interest to you, engage in the process, roll up your sleeves and be diligent about ascertaining the facts.**

## NEW CONSTRUCTION

There are several challenges inherent in construction that are not present when purchasing an existing home. Obviously, it is impossible to make as thorough an inspection of a home in the planning stages or in the process of being built as can be performed on an existing home. A great deal of trust and confidence must be placed in the new home construction contractor. While your Realtor® may represent one or more new home construction contractors, the Realtor® cannot guarantee the quality or timelines of the work of any particular one. You must investigate the contractor just as you would investigate

any other home purchase. Fortunately, there are resources available to assist you in conducting this investigation. First, all new home construction contractors must be registered with the Connecticut Department of Consumer Protection. You may contact the Department to determine whether there have been any complaints filed against a particular contractor. Second, by law, the new home construction contractor must provide you with a copy of the contractor's registration number and a written notice to advise you of certain rights you have and questions you should ask. For example, the notice advises you that, upon your request, the new home construction contractor must provide you with the names of consumers of the last twelve new homes constructed to completion during the previous twenty-four months, or if the contractor has not constructed at least twelve new homes to completion during the previous twenty-four months, then a list of all consumers for whom the contractor has constructed a new home to completion during the previous twenty-four months, except for those consumers who have stated in writing that they do not wish to have their names released. Do request the list of names and check with several of the consumers on the list to determine how satisfied they were with the contractor's services.

Unlike existing housing, a new home construction contractor must provide you with a one year warranty for defects in workmanship or materials on any newly constructed property. It is possible for a contractor to exclude or limit portions of this warranty in the purchase or construction contract. The building inspector will issue a certificate of occupancy indicating that the home meets building code requirements and may be legally occupied. A certificate of occupancy may be issued even if some items such as landscaping are incomplete.

Contracts and deposits are often handled differently in new home construction. The fill-in-the-blank purchase contracts that are often used for residential sales are not suitable for new

home construction. New home construction contractors often want the deposit released to them and not held in trust or escrow. In addition, the plans and specifications should be reviewed and agreed upon between you and the builder and attached to the contract. Therefore, you should always have the contract reviewed by your attorney prior to signing it. While the contractor may not agree with every change that your attorney wishes to make, no reputable contractor will object to having your attorney review the contract before you sign it.

## CHOOSING A LAWYER



You will need to retain a lawyer as part of your home-buying team.

There are several ways to find and choose an attorney:

- ❖ First, many state and local bar associations have lawyer referral services that will give you the names of attorneys practicing real estate law who are admitted to practice in Connecticut. Check in the Yellow Pages of your phone book under listings for attorneys or lawyers for the number of a local lawyer referral service.
- ❖ Second, friends who have used a local attorney in a real estate transaction should be able to recommend an attorney whose services they found satisfactory.
- ❖ Third, title insurers maintain lists of attorneys authorized to write insurance policies that handle real estate transactions. Attorneys who are authorized to write insurance policies for title insurance companies can issue title insurance policies and provide other legal services in connection with the transaction.

All attorneys should be happy to discuss fees with you in advance. If you have already chosen your attorney, discuss fees on your first visit. In Connecticut, attorneys are required to provide you with a written fee agreement unless the attorney has previously represented you. While the attorney will be willing to estimate fees and explain how they are calculated, costs may vary depending on the circumstances surrounding your transaction. Each real estate transaction is unique, and additional time or work may be needed. Remember that a real estate transaction is complicated. Your lawyer's advice can help you avoid future problems.

Fees are only one consideration when choosing an attorney. The lender's attorney, for example, may offer "personal" representation for a set fee. If you are thinking of using the lender's attorney as your attorney, have the attorney carefully review possible conflicts between the lender and yourself so you can be fully informed before making the decision. Lenders often have their counsel agree to very stringent terms and conditions and these terms and conditions may, at times, prevent the lender's attorney from fully representing you personally. If there is a dispute between you and the lender, the lender's attorney will be required to drop you as a client leaving you unrepresented. Residential lending has become quite sophisticated, and there are, on occasion, disputes between lenders and buyers that involve differences between the loan terms the lender described in the commitment letter and the loan terms presented in the actual mortgage documents, proper calculations of lender fees, escrow requirements, and lender charges not revealed on the Good Faith Estimate of Closing Costs.

## CHOOSING OTHER PROFESSIONALS

Choosing other professionals is a similar process to choosing a Realtor® or an attorney. Although your Realtor® can provide

you with the names of professionals in the needed specialty, the ultimate decision as to which of these professionals to choose is yours. When looking for a surveyor, house inspector, pest inspector, etc., you should inquire about the professionals' education, experience and licensing. Additionally, you should view samples of the professionals' work and call the Connecticut Department of Consumer Protection to determine whether any complaints have been filed against the professional. In addition, you may also wish to ask the professional whether he or she is insured. The more confidence you have in the professional that you have retained, the more confidence you will have in your buying decision.

### **BEFORE MAKING AN OFFER:**

1. Review recent selling prices of similar homes in the area to establish a comfortable offer price.
2. Be careful not to let your feelings rule. Remember that if the offer is turned down, there will be other homes to your liking.
3. Do a background check on the property. How long has it been on the market? Why is it being sold? What are its advantages and disadvantages? Doing your homework will help you make an offer that meets the needs of both buyer and seller.
4. You may also wish to speak to neighbors. You may wish to check with the Police Department, the State Department of Public Safety or Connecticut's sexual offender registry to determine whether any convicted persons live in the area.
5. Consider the home's resale value.
6. Ensure that the sale price and all other specifics to be covered are included in the offer before you sign it.

## **OFFER AND CONTRACT**

When your offer, typically a fill-in-the-blank form, is formally accepted, you have a purchase agreement that is a legal contract. It covers many items, such as the purchase price, total down payment, and closing date. The purchase agreement also states which party (buyer or seller) will pay for which settlement or closing costs, the type of loan you are applying for, the interest rate, term of the loan, and the date by which you must have the loan.

In many parts of Connecticut, your offer will be submitted on a purchase agreement form. Once the seller signs the purchase agreement, it becomes the contract between the parties. There are several advantages to this procedure. It is quick, generally less expensive than hiring an attorney to draft the contract, and the contract forms are in widespread use so both Realtors® and attorneys are familiar with their contents. The disadvantage of a form agreement is that it may not suit the particular property or your particular needs. For example, the form contracts are not suitable for new construction or commercial properties.

Do not hesitate to seek an attorney's advice concerning the contract or to ask that the purchase agreement form contain a provision requiring that your attorney approve the contract. It is always your privilege to have your attorney draft the real estate contract, and in some parts of Connecticut, this is the common practice. If you wish to have your attorney draft the contract, you may wish to inquire as to whether the attorney will be using a bar association form contract. Some local bar associations have issued fill-in-the-blank contract forms for use by their members. These forms allow the contract to be executed quickly and generally for less cost than if the attorney were to write the contract from scratch.

No matter what method you choose, be aware that Connecticut



law states that an oral contract for the purchase of real estate is generally not enforceable. So, although the seller has verbally agreed to your offer, the seller is not obligated to sell the property to you unless the seller has executed and delivered a purchase agreement. Any payments that you make for inspections and tests *before* the contract is drafted, signed and delivered are done at your own risk unless otherwise agreed.

## APPRAISAL AND INSPECTION

After the offer is accepted, there will be an appraisal and a house inspection. These are different:

***The appraisal:*** A written opinion of the property's value. Your lender will require an appraisal. The appraiser visits the house and reviews recent selling prices of similar homes in the area. You will pay the appraisal fee at the closing or as part of your mortgage application. The appraisal is not a house inspection.

***The house inspection:*** An evaluation of the property to determine if there are any specific problems that could change its value. The inspection also helps you decide on those items you wish to ask the seller to repair. The inspector is expected to carefully examine the entire house, inside and out. A detailed report will indicate any problems found. The inspector is not an appraiser. Property values are not within the expertise of the house inspector.

The buyer typically pays for the inspector. Review a sample of each potential inspector's previous reports for thoroughness. Ask whether the inspector is a member of ASHI (American Society of Home Inspectors) or CAHI (Connecticut Association of Home Inspectors).

Be certain that the inspector allows you to be present during the inspection. Walking through the house together will give you a hands-on feel for what is right and wrong with it. As of July 1, 2000, Connecticut requires house inspectors to be registered with the Department of Consumer Protection.

## Other Inspections to Discuss with Your Realtor®

- ❖ ***Termite and Pest Inspection:*** If termites are found, you must have proof that the house has been treated and that any termite damage has been repaired. This is usually the seller's responsibility.
- ❖ ***Water Potability:*** This test determines whether your water meets Connecticut standards for potable drinking water.
- ❖ ***Water Chemical Analysis:*** This test determines whether there are chemicals in private well water that might be harmful to drink or might give the water an off-color or taste.
- ❖ ***Radon Gas:*** These tests determine whether there are levels of radon gas in the home or water that exceed levels recommended by the Federal Department of Health and Human Services.
- ❖ ***Lead Based Paint/Lead Based Paint Hazards:*** Every buyer of a home built prior to 1978 has the right to perform tests to determine the presence of lead-based paint or lead-based paint hazards. You should have been provided with a booklet discussing lead-based paint and lead-based paint hazards. Thoroughly review the contents of this booklet. There are also certain disclosures the seller must provide to you.

- ❖ ***Sub-Surface Sewage Disposal:*** Residences are connected

to their own private sub-surface sewage disposal system. The care and use of private, sub-surface sewage disposal systems is much different than the use of public sewers. The Connecticut Health Department has several brochures containing information on subsurface sewage disposal. In addition, a standardized examination report is available concerning the septic system.

- ❖ **Well Water Recovery Test:** This test determines how much water the well produces each minute. A relatively low gallons per minute rating does not necessarily indicate a bad well provided the well has sufficient storage capacity. You should discuss this with your house inspector, well contractor or the local health official.
- ❖ **Underground Oil Tanks:** Leaking underground oil tanks present liability issues for buyers and sellers. Connecticut law imposes responsibility on any land owner whose underground oil tank leaks for cleanup costs and damage to other properties as a result of a spill. Fortunately, Connecticut has an amnesty program that shields a homeowner from most of this responsibility and provides financial assistance for clean up costs. The amnesty ends on January 1, 2002. In addition, some towns have special ordinances regarding underground oil tanks. It is important for a purchaser to know whether or not the property has an underground oil tank and to speak with the local Fire Marshal, the State Department of Environmental Protection, or building inspector concerning underground oil tanks and Connecticut's amnesty program.

## TITLE SEARCH AND INSURANCE\*

\*reprinted with permission of Connecticut Attorneys Title Insurance Company 860-257-8606

Another step that takes place is the title search. A title search involves investigating the land records in the town where the

property is located, as well as other sources of information, such as probate and tax records, to uncover any possible problems with title (legal ownership) to the property. If problems are found, you may decide not to purchase the property. (For instance, there may be an unknown heir, a secret spouse, or a faulty land survey on the property). Title searches are generally set up by the buyer's lawyer. If no problems are found in the search, the title company issues you a title insurance policy. This is for your protection. Your lender will require a title insurance policy to protect its interests.

Title insurance provides protection against financial loss that could result from title defects or claims against your property. There are two types of policies: the *owner policy*, which provides protection to the homeowner and the homeowner's heirs, and the *mortgagee policy* that offers protection to the mortgagee (lender). These two policies are separate and distinct. The owner policy protects you, so long as you have an interest in the property. It protects your heirs' interests in the property if the property is transferred to them and it protects the warranties you give when you transfer the property. The mortgagee (lender) policy lasts only so long as the loan is outstanding. This means that you may be required to purchase a new mortgagee policy in the event you refinance your loan at a later time. If the lender requires title insurance (which is typically paid for by the buyer), it is the lender who is insured and not the owner. If the owner wishes title insurance, a separate policy must be purchased. The new owner can, however, reduce the cost by purchasing the two policies simultaneously.

Title insurance offers two types of coverage. First, it will pay to defend the insured's title in a court of law. Secondly, it will pay the cost to remove a defect in the title on behalf of the insured to the extent of the policy limits. However, title insurance provides additional protections over and above a title search. First, if

there is a problem, it is the title insurance company and not the new owner who will have to assume the financial burden of making a claim against the prior owner. Second, there are a number of "hidden defects" which neither the seller nor the attorney examining the title is responsible for but which could affect your title. Examples of these are lost or forged deeds, deeds executed by incompetents, incorrectly indexed deeds, or improperly probated wills. Title insurance covers all such potential problems and does so without respect to the financial resources of the attorney or the prior owner.

The title insurance policy or policies are issued at the time of the closing. There is a one-time premium payable at closing by the buyer. There are specific exceptions from the coverage of the policy, but they will be set forth on the policy as items not being covered.

## HOMEOWNER'S WARRANTY

In addition to a house inspector's report and title insurance, you may also protect yourself with a homeowner's warranty. This warranty covers some repairs to the structure, mechanical systems, and major appliances of the house for a certain time, usually a year. The seller may offer a warranty with the sale. If not, you can buy a homeowner's warranty on your own. Ask your Realtor® to advise you. You should carefully review the warranty because there may be exceptions in these warranties.

## MANY TYPES OF MORTGAGES

A wide choice of home loans and financing options are available. Some choices are yours to make. Others are based on your specific circumstances.

- A. **Fixed Rate Mortgage:** The interest rate on this agreement remains the same for as long as you hold your mortgage, no matter how interest rates change in the financial markets.
- B. **Adjustable Rate Mortgage (ARM):** *The* interest on an ARM may vary up or down at fixed intervals. The changes are tied to a financial index such as one-year Treasury notes. However, this rate will go up after a certain time. If interest rates are low, an ARM may be a good option. This is especially true if the lifetime adjustment cap is not more than a few points higher than the current fixed rate. ARMs are of special interest to buyers who know their income will rise in the future or who do not plan to own the home for many years.

***If you are considering an ARM, be sure you know:***

1. What is the adjustment period (the time between interest rate changes)?
2. What index is used to determine interest rate? Make sure it is not too fast changing.
3. Does the introductory rate differ from the normal rate?
4. What is the margin (the percentage added to the index rate each time your loan is adjusted)?
5. What is the period adjustment cap? The period adjustment cap is the maximum percentage the

interest rate can go up or down each time it is adjusted.

6. What is the lifetime adjustment cap? The lifetime adjustment is the maximum interest rate that can be charged on the loan.

C. **Balloon Mortgage:** These mortgages are offered for short terms - usually 5 or 7 years. Payments are based on what you would pay for a 30-year loan. They have low monthly payments, with a final, large payment due at the end of the term. The low early payments may make it easier to get started in a new home, but you must be sure that you will be able to make the final balloon payment.

Various government agencies, such as the Connecticut Housing Finance Authority, also have special mortgage programs for qualified homebuyers. Ask your Realtor® or lender for more information.

## LOAN APPLICATION CHECKLIST

Your lender will let you know what information is required to make the mortgage loan process proceed as quickly as possible. Be sure to supply accurate information. Otherwise, the loan may be delayed or even denied. Remember that most mortgage application fees are not refundable. Specific information will be required at the time you apply for a home loan, so it is a good idea to begin gathering the paperwork you will need ahead of time. Here are some of the items you should be ready to provide. Check them off as you collect them. ✓

- Picture ID.
- Proof of Social Security Number(s).

- Residence address(es) for the past two years.
- Names and addresses of each employer for the past two years.
- W-2's and last two pay stubs.
- For each checking and savings account: the name of the financial institution, address, account #, and balance.
- For each current loan: name of lender, address, account #, balance, and monthly payment.
- Last three years' Federal income tax returns.
- Loan information and address(es) of current real estate owned.
- Estimated value of furniture and personal property.
- Certificate of eligibility or DD214s (VA only).
- Deposit for credit report and appraisal.
- Gift letter from relative (in the event that you do not have sufficient money to close).
- Two months' bank statements.

When you make a formal loan application, your lender will give you:

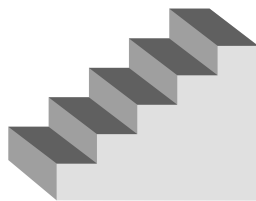
1. A Truth-In-Lending Disclosure. This statement provides information about the proposed loan, such as annual

percentage rate (APR), total finance charges, amount financed, total payments, schedule of payments, late payment charges, prepayment penalty (if any), and assumption options, which indicate the lender's willingness to allow a future buyer to take over your original loan. The APR permits you to compare the cost of credit among various loans.

2. A "Good Faith Estimate" of Closing Costs. The exact forms that lenders use to prepare this estimate vary, but the information is basically the same. This estimate gives you a rough idea of the fees the lender will charge when you apply for a loan. There are many variable fees, including application fee, points, appraisal and credit report fees, and closing and settlement fees.
3. A Booklet From HUD (U.S. Dept. Of Housing and Urban Development). This will help you understand Closing Costs and Truth-In-Lending Disclosures.

When you have been approved, the bank will send you a "commitment letter". You have not been approved for the loan until you receive the commitment letter. "Pre-approval" and "Pre-Qualification" letters are not commitment letters. If there are any conditions contained in the commitment letter, immediately bring these conditions to your attorney's and REALTOR®'s attention.

## THE FINAL STEPS TO CLOSING



## "BEFORE CLOSING" CHECKLIST:

1. Review all loan documents and your purchase agreement;
2. Call utility companies and arrange to have utilities transferred to your account;
3. Call and arrange for homeowner's insurance. Typically, your lender will require that it be listed on the policy and that you provide proof of insurance and a receipt for one year's premium; and
4. Do a final "walk through" inspection. Make certain that all repairs the seller agreed to perform have been made and no items in your agreement have been changed or removed from the house.

## CLOSING

The actual closing is when papers and checks change hands and the home officially becomes yours. You must pay for the remaining closing costs, down payment and adjustments at closing. Payment should be by a certified or cashier's check rather than a personal check. Your attorney will tell you how the check should be made out.

Closings are either "informal" or "formal". If the closing is "informal", you and the seller will meet with your respective attorneys separately, and the attorneys will meet to exchange papers and checks. In a formal closing, the buyers, sellers, the respective attorneys and the Realtors® will all meet at the same time. Papers will be signed in the formal closing and distributed along with the proper checks. It really does not matter what form of closing is used, and the form of the closing is a matter of

agreement between the parties. If you bring children to the closing, you may wish to bring something quiet for them to do as the typical closing is not very entertaining and you will want to concentrate when your attorney reviews the paperwork with you. A closing ordinarily takes approximately 1 to 1 ½ hours.

Typically, you will be asked to sign the following documents at the closing:

- ❖ **RESPA or HUD-1 Form:** This form lays out all the financial aspects of the transactions and accounts for every penny in the transaction.
- ❖ **Truth-In-Lending Statement:** You received a Truth-In-Lending Statement when you applied for the loan. This is the final Truth-In-Lending Statement and you will be asked to sign it at the closing.
- ❖ **Promissory or Mortgage Note:** This is your written promise to pay the lender the amount you are borrowing to purchase the property. The amount, interest rate and term of the loan should match what is described on your loan commitment.
- ❖ **Mortgage Deed:** This is a long document that gives the lender the home you are purchasing as collateral for your promise to pay made in the promissory note.

The seller must also sign some paperwork at the closing. Typically, sellers will provide the following documents for the closing:

- ❖ **Deed:** This is “the bill of sale” for the property. It will be signed by the seller and will contain a legal description of the property you are buying. There are various forms for these deeds. The typical form used in Connecticut is a warranty deed. Your attorney can explain the difference in deed types.
- ❖ **Conveyance Tax Return:** Connecticut charges a

conveyance or sales tax on the sale of real estate. This is paid by the seller, and the seller also furnishes the conveyance tax return. You will be asked to furnish your social security number to complete the conveyance tax form.

- ❖ **Checks:** The seller will provide checks for the conveyance taxes, real estate commissions, mortgage payoffs and the rest of the seller’s sales expenses.
- ❖ **Keys and Garage Door Openers:** The sellers will provide the keys, garage door openers, alarm codes and other means of entry into the property at closing. Typically, these are provided at the end of the closing.

## TERMS TO KNOW

### CLOSING COSTS

Closing costs are the costs that the buyer of a home must pay at the time of purchase. Closing costs usually include an appraisal fee, title search, title insurance and lawyer’s fees. They may also include “points” and other fees (such as one-year homeowner’s insurance premium and private mortgage insurance, if required). Closing costs are in addition to your down payment and vary slightly from lender to lender. Your lender must give you an estimate of these costs when you apply for a loan.

### POINTS

Finance charges that are paid to the lender as part of the closing costs are referred to as “points”, “origination fees” or “loan discounts”. Each point equals 1 percent of your total mortgage loan. Points can be negotiable and are sometimes

tied to your interest rate.

## **PREPAYMENT**

Prepayment is the ability to make early or extra payments toward the principal (amount borrowed). Prepayment can shorten the length of your mortgage and thus lower your total in interest payments. However, lenders may charge a penalty if you pay off the mortgage very quickly, usually in the first few years. Be sure to ask about prepayment conditions in your mortgage and read all the documents.

## **PRIVATE MORTGAGE INSURANCE (PMI)**

Private mortgage insurance is insurance the buyer carries to guarantee that the lender is paid off if the buyer defaults (fails to pay) on a mortgage. This is different from homeowner's insurance. It is generally required for all mortgages with less than a 20 percent down payment. The exact amount (usually a few hundred dollars) depends on the amount of the loan and the size of the down payment.

## **ADJUSTMENTS OR PRO-RATIONS**

There are certain expenses that the seller has paid in advance. The purchase agreement typically requires you to reimburse the seller for a portion of these expenses. This reimbursement is called an "adjustment" or "pro-ration". Customary adjustments include property, sewer and water taxes, fuel oil, and association fees.

## **NOTES**