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BUYING A HOME

closing costs

deductibles

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mortgage loan

down payment

interest rate

points

property damage

investment

balloon payments

A guide for first-time home buyers

liability

equity

replacement cost

claims

New Jersey Department of
BANKING AND INSURANCE

Mikie Sherrill
Governor

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Acting Commissioner

Homeownership is the fulfillment of the American dream. As with any major purchase, you should understand the product before you buy it. However, unlike most other commodities, buying a residence can be a process much more complicated than comparing prices. That is why the New Jersey Department of Banking and Insurance (NJDOBI) has prepared this guide to help you finance, shop for and insure your dream home.

Purchasing a home will most likely be among your largest and most important investments. Therefore, it is very important that you understand as much as possible about the process of buying a home to ensure minimal stress and anxiety. From the fundamental question of why you should consider homeownership, to recording the deed and mortgage, this guide is designed to provide you with information you may need to know to buy your dream home.

If you need more information about anything contained in this publication, visit the Department's web site, **www.dobi.nj.gov**, or call or write to the Department. Contact information is located on the back cover of this guide.

Disclaimer

This booklet is for information purposes only, and must not be relied on as a substitute for legal advice.

Steps to Buying a Home

For most of us, the process of buying a home may seem complex and intimidating. Knowing where to start, what to do and what to look out for may save buyers time and money when purchasing a home. **Note:** If you have never owned a home or have not owned a home for the past three consecutive years, you are considered a first-time home buyer in New Jersey.

Step 1: Getting Started 2-7
Why Buy a Home?
Why Not Buy?
Assess Your Financial Situation
Review Your Credit History
What's the Score?

Step 2: Going Shopping 8-15
Shopping for a Mortgage Loan
Choosing a Real Estate Professional
Finding Your Dream Home

Step 3: Making an Offer 16-18
Put it in Writing

Step 4: Getting Ready for Settlement 19-23
Home Inspection, Title Search and More
Financing Review

Step 5: Insuring Your Home 24-34
Home Insurance Basics
What is Covered by a Homeowner's Insurance Policy?
Common Exclusions
Types of Policies
Underwriting Guidelines
Buying the Right Amount of Coverage

Step 6: Sealing the Deal 35-36
Settlement Statement
Final Walk-Through
Closing
Recording the Deed and Mortgage

Step 1: Getting Started

Why Buy a Home?

Purchasing a home will most likely be among your largest and most important investments. Homeownership offers many benefits, but comes with certain responsibilities. Ultimately, you need to determine the pros and cons of owning a home to make the best decision for you and your family.

In general, homeownership offers several advantages over renting:

- **It can be a sound investment**

  As you make mortgage payments over time, you accumulate **equity** – the term used to refer to your net financial interest in the property. It is the difference between the amount still owed on the **mortgage loan** and the fair market value of the property. In contrast, rent payments never earn equity.

- **Increasing value**

  In general, property increases in value over time. This process is known as **appreciation**. (**Note:** Real estate value can depend on a number of variables, including the property's age and location, and appreciation is not guaranteed.) Any increased worth is equity you may be able to borrow against or take as profit upon the sale of the property.

- **Tax advantages**

  As a homeowner, you can deduct mortgage interest and property taxes from your federal income taxes. Consult a tax professional for details.

- **Offers generally fixed housing expenses**

  Unlike rent, which can increase annually, most mortgage loans have fixed or capped monthly payments. This can provide the financial security that comes from knowing what your maximum housing payments (with the exception of property taxes, homeowner's association fees, etc.) will be from year to year.

- **Gives you control over your environment**

  Homeownership allows you the opportunity to customize your environment to match your individual tastes and needs. You can develop a feeling of permanence in a place that you can call your own. Of course, this also means that you are responsible for all utility costs and the cost of repairs and maintenance on the property. There is no landlord to maintain the property or take care of any problems.

Why Not Buy?

A realistic personal assessment may reveal that homeownership is not right for you or you might want to delay the process. Your personal and financial priorities will determine what's best for you.

Be aware that buying a home:

- Can be a complex, time-consuming and costly process.
- May bring unwanted responsibilities such as maintenance and repairs and additional expenses – property taxes, utilities, homeowner's insurance, etc.
- Can possibly create financial hardship.
- May be difficult if your credit is not favorable to a lender.

Assess Your Financial Situation

Before you begin looking for a home you may need to ask yourself: "How much can I pay for a house and still have a life?" You do not have to figure this out on your own. Consider getting pre-loan counseling from a Department-licensed nonprofit credit counselor or an approved high-cost home loan counselor registered with the **U.S. Department of Housing and Urban Development (HUD)** (call **1-800-569-4287** or visit online at **www.hud.gov**).

In most cases, a potential homeowner will need to obtain a **mortgage loan** – an advance of funds from a lender to a borrower for the purchase of real estate. The mortgage itself is a legal document that sets forth the conditions of the loan, the manner and duration of repayment, and which pledges the

borrower's property (home) as security for the loan. The mortgage **principal**, the amount of the loan required to buy your home, and **interest**, the fee charged for borrowing the money, will typically be large enough to require mortgage payments for a significant period of time – often 15 to 30 years.

Commonly Used Mortgage Terms

You will be living with mortgage loan payments for a large portion of your life. To accurately predict your monthly payment and to eliminate surprises later in the process, you will need to learn about some additional commonly used mortgage terms:

Debt to Income Ratio (DTI) – One of the first factors a lender may consider when deciding how large a mortgage loan you qualify for is your **debt to income ratio**, or **DTI**. To calculate your DTI, add up your current monthly debt (credit card payments, car loans, etc.) and divide it by your total monthly pre-tax gross income. This percentage ratio is a simple way of showing how much of your income is available to make a mortgage loan payment after all other continuing debt obligations are met.

Lenders often call this the **28/36 qualifying ratio**. The first number, 28 percent, indicates the maximum amount of your monthly pre-tax gross income that the lender allows for monthly housing expenses. This amount will include **principal** and **interest** of the loan, property **taxes**, and homeowner's **insurance**, or **PITI**. The second number, 36 percent, refers to the maximum percentage of your monthly pre-tax gross income that the lender allows for all monthly housing expenses plus all recurring debt.

If your ratio numbers are higher than 28/36, you may want to consider reducing debt by paying off credit cards or other loans before starting your home search.

When calculating and relying on your DTI to determine loan affordability, be confident with your numbers and do not be afraid to stick with them as you shop around. Some lenders may allow higher ratios and be willing to loan you amounts that will take you beyond the traditional qualifying ratio and what you

can afford. This could lead to more costly monthly payments and might cause financial hardship if you find that your loan is not affordable once you have moved into your new home.

Down Payment – The **down payment** is part of the purchase price of a property that the buyer pays, usually in cash, and is not included in the loan amount. Most lenders require five to 20 percent of the purchase price of the home, depending on the type of mortgage loan.

Review your budget and make a decision about how much of a down payment you can reasonably afford to pay. If you do not have enough, you may be able to qualify for a loan under various government programs that are available.

Private Mortgage Insurance (PMI) – Any down payment less than 20 percent generally will require **Private Mortgage Insurance (PMI),** which protects the lender against loss if a borrower defaults on a loan. While it does not protect the borrower, it may allow the borrower to qualify for a loan they could not otherwise get. The **premium** (the amount of money charged for insurance) is paid up front or financed as part of the mortgage.

PMI usually can be cancelled when the homeowner builds up enough **equity** in the home. Under federal law, PMI on most loans made on or after July 29, 1999, will end automatically once the mortgage is paid down to 78 percent of the original value of the house.

Interest Rate – As you know, the interest rate is the cost of borrowing money. Mortgage loans have repayment terms in the general form of a **fixed rate**, where the monthly interest payment does not change over time. This is often called a "**conventional mortgage**." Another common type of mortgage loan is the **variable** or **adjustable rate mortgage (ARM)**. An ARM has an interest rate that changes periodically during the loan's life.

Conventional loans are generally thought of as more stable as they are not subject to fluctuating interest rates that can make dramatic swings over a long period of time. This accounts for the popularity of fixed rates, which often attract borrowers who plan to stay in one place for a considerable amount of time. The length of these loans most frequently selected is the 30-year mortgage, but 15-year and 40-year have grown in popularity.

Also more popular is the ARM, which will lock the borrower into a lower fixed-rate for a specific period of time, often five years, and then will rise according to terms agreed to in the loan. An ARM and another type of loan more popular today, **interest-only mortgages**, make owning a home more affordable early in the ownership period and drive up costs later. These types of mortgages may work well for first-time home buyers who are reasonably confident of an income increase that will compensate for the rise in loan payments. It also attracts those who expect to sell a home before the fixed-rate portion of the ARM ends.

Your lender will give you the option to **"lock in"** a rate quote for a specific period of time, often 60 days. A rate lock fixes the rate against a rise in rates, but rates may also fall in the time between the quote and your closing date.

When filing your mortgage application, make sure you review your loan terms carefully to make certain you understand the rates and fees charged. Should you decide to lock in a rate, be certain to allow enough time so that you close before your lock-in expires.

Review Your Credit History

Your current debt is not the only factor used in the lending process. Your credit history will also impact the interest rate and terms of your loan, the minimum amount of your down payment, or even if you will receive a loan at all. Get a copy of your **credit report** from one or all three major credit reporting agencies (**Equifax, Experian and TransUnion**). New Jersey and federal law entitles residents to one free report from each agency per year.

A credit report gives potential creditors a "snap shot" of your credit worthiness. It will show what types of credit you currently have and/or what you have had in the past. It also shows if you have paid your bills on time, filed for bankruptcy, or if you have ever been evicted from a rental property.

It is important to make repairs to your credit history *before* you apply for a mortgage loan. Check your credit report(s) for any discrepancies that may have a negative impact on your ability to secure financing. If you find any errors, contact the reporting agency immediately and request a correction.

Get Your Free Credit Report

The best loan terms go to individuals with the best credit history. A poor credit rating will likely mean a more expensive loan. The difference between having "just okay" credit and good credit can cost you tens of thousands of dollars over the life of a loan.

Access all three reports:

www.annualcreditreport.com; 1-877-322-8228

Or contact the three major credit reporting agencies:

Equifax: www.equifax.com; 1-800-685-1111
Experian: www.experian.com; 1-888-397-3742
TransUnion: www.transunion.com; 1-800-888-4213

You can establish good credit by:

- Having a steady source of income; this usually means working consistently for two to three years.
- Having a good record of paying your bills on time.
- Keeping outstanding long-term debts low.
- Putting money in a savings account.

If your credit is not in good shape, you may want to wait to purchase a home and spend the time needed to repair your credit instead. You may wish to consult a certified credit counselor who can help you get back on track.

What's the Score?

Your **credit score** or FICO (for Fair, Isaac and Company, which created the system) is a number that indicates the health of your credit. The higher the score, the healthier your credit and the more likely a lender will approve a loan with good terms.

Scores can range from 300 to over 800, with the typical credit score falling between 600 and 700. You can receive your credit score from the credit reporting agencies for a reasonable fee.

Step 2: Going Shopping

Shopping for a Mortgage Loan

As with any major purchase, it pays to shop around when looking for a mortgage loan. Different lenders will offer different terms, have different requirements, and offer varying levels of service.

Pre-Qualify or Pre-Approval for a Mortgage

Following a personal assessment of your financial situation, you need to find out how much house you can afford.

To help determine the amount you may be eligible to borrow for a mortgage loan, consider getting **pre-qualified** with a mortgage lender. This free service generally takes about two days and involves providing income, asset and debt information to a lender who may issue a letter to the home shopper.

Taking this process a step further, a potential home buyer may get **pre-approved** for a mortgage. This means getting a guaranteed loan for a certain amount that generally lasts for 60 to 90 days from the date issued. A pre-approved loan may involve a nonrefundable fee, but is often considered an advantage for a buyer because it speeds up the closing process.

Be sure to ask the lender about the types of loans available to you and if there are any qualifying guidelines; what is the minimum down payment; and what would be included in the monthly mortgage payment – typically, the **principal** and **interest** of the loan, property **taxes**, and homeowner's **insurance**, or **PITI**. Your payment may also include **Private Mortgage Insurance** and any homeowner's association dues, if applicable.

Know Your Lender

When shopping for a mortgage loan, don't be afraid to ask basic questions, with the most basic being the official name of the lender. Find out the true identity of the lender. Are they a licensed lender, financial institution, or simply a servicing company? Is the company licensed by the state of New Jersey? Ask for the company's license number and confirm it with the Department of Banking and Insurance online at **www.dobi.nj.gov.**

Some factors to consider when shopping for a mortgage loan…

Loan first, house second

Find out how much house you can afford before you fall in love with a house that you will struggle to purchase and maintain.

Consider getting pre-qualified or pre-approved

A written commitment from a lender puts a potential home buyer in a better position.

Know the application costs

There may be a fee required to apply for a mortgage. This fee might be charged when you apply, when the loan is approved, or at closing. Be sure you know how much this fee is and when it will be charged.

Look for a reputable lender

Remember, a lender makes a commission from closing or "selling" the loan, not from looking out for your best interest. Consider the lender's stability and service record.

Understand the interest rate

Remember to ask if the loan has a **fixed or adjustable rate of interest**. A fixed-rate mortgage charges a set rate of interest that does not change over the life of the loan. An adjustable rate mortgage varies over time. This could make a big difference in what your monthly payments will be.

Consider getting the interest rate locked in

Rates quoted prior to closing are subject to change unless they are locked in. Locking in your interest rate on an application is often preferable to waiting until the loan is approved.

Be Prepared	Collect all the financial papers you will need to complete a mortgage loan application. This can include your **job history, income records, a list of your assets** (investments, property, bank accounts) and **liabilities** (auto loans, installment loans, other mortgages, credit card debt).

Know the Law

The **New Jersey Homeowners Security Act of 2002 (NJHOSA)**, with amendments in 2004, applies to all home loans secured by New Jersey realty or manufactured homes. This law is designed to protect consumers when buying a home, and includes several provisions of which you should be aware.

The Homeowners Security Act explicitly prohibits lenders from:

- Financing certain credit insurance premiums or debt cancellation agreements;
- Recommending or encouraging default on an existing mortgage loan;
- Charging a late payment fee in excess of 5 percent of the amount of the payment due;
- Accelerating indebtedness at the creditor's sole discretion; and
- Charging a fee for a borrower's payoff balance information.

Additional protections apply to **high-cost loans**. High-cost loans are more than 8 percent higher than the federal index or exceed 4.5 percent of the total loan amount in points and fees.

For high-cost loans, lenders are prohibited from (among other provisions):

- Charging most "**balloon payments**" (*see below*);
- **Negative amortization** (when the principal balance of the loan increases even though all payments are being made);
- Increasing the interest rate after default; and
- Requiring more than two periodic payments to be paid in advance.

For more information, visit **www.dobi.nj.gov**.

Beware of Balloon Mortgage Payments

A mortgage with periodic installments of principal and interest that do not fully amortize (repay over time) the loan and then has a lump sum payment required at a certain date, often near the end of the term, is frequently called a **balloon mortgage.** Watch out for hidden lump sum payments. Make sure that you read the full terms of your loan agreement.

Predatory Lending

Predatory lending can mean any type of abusive lending practice where the lender benefits through unworthiness, deceit, misrepresentation, bad faith, or dishonesty. These practices can occur in the **subprime lending market** and often target lower-income and minority borrowers. Subprime lending is not synonymous with predatory lending, however, and loans with subprime features are not necessarily predatory in nature. (*For more information on subprime loans, see NJDOBI's "A Homeowner's Guide to Subprime Lending" brochure.*)

Some common forms of Predatory Lending:

Unaffordable loans – Loans that are based on equity or assets rather than the borrower's monthly income and ability to make payments.

Loan flipping – Encouraging repeated refinancing – which requires additional fees and points from the borrower each time – thus draining the borrower's assets. You could become burdened with higher payments, larger debt and ultimately face the possibility of losing your home.

Fraud or deception – Concealing the true nature of the loan obligation from the borrower.

Bait and switch – Verbal representations of favorable terms are made to sell a loan and different, less favorable terms are presented at the closing.

Pressure – Aggressive sales tactics are used to induce a borrower to sign an expensive, or unaffordable loan contract.

Read Carefully Before You Sign on the Dotted Line

Avoid being a victim of predatory lending by doing your homework and shopping around. Do not focus simply on interest rates, and learn all of the terms and conditions of the loan. **Do not sign anything you have not read or do not understand completely, and never sign a blank or incomplete document – you never know what may be filled in after you have signed.** Always work with a licensed lender, broker or depository institution, and do not give in to high-pressure sales techniques. This is one of the biggest financial commitments you will make in your life, so shop on your time, at your pace.

(For more information about finalizing your mortgage, see page 21.)

Choosing a Real Estate Professional

All the details involved in buying a home can be confusing. Finding the right real estate professional for you is a great first step toward making the experience much easier.

In New Jersey, there are four brokerage business relationships: **seller's agent, buyer's agent, disclosed dual agent** and **transaction broker**. Each of these relationships imposes certain legal duties and responsibilities on the licensee, as well as the seller or buyer represented.

All four of these types of agents must be licensed by the **New Jersey Real Estate Commission (REC),** a division of the New Jersey Department of Banking and Insurance. Agents are required to demonstrate, to the Real Estate Commission's satisfaction, that they are honest, trustworthy and of good character and integrity in order to obtain a license.

All licensed agents work under the authority of a **real estate broker**. One of the best sources for finding an agent you can trust is through referrals. Ask someone you know who has recently purchased or sold property about their experience.

Compile a list of several agents and talk to each one before choosing. Look for an agent who listens well, understands your needs, and whose judgment you trust. The ideal agent knows the local area well and has resources to help you in your search. Overall, you want to choose an agent that makes you feel comfortable and can provide the knowledge and services you need.

All REC Licensees must:

- Deal honestly with all parties.
- Disclose any known physical condition of properties sold or leased that affects the property in a material way.
- Faithfully administer escrow funds.

- Submit all written offers according to rules and regulations.
- Disclose in the contract any personal interest the agent has in the transaction.
- Prior to discussing any real estate matters, disclose to all parties the agent's business relationship – seller's agent, buyer's agent, dual agent or transaction broker.
- Provide the Consumer Information Statement prescribed by the REC.

Commission Rates

When a real estate agent facilitates the sale or purchase of property their broker receives compensation through a commission – generally a percentage of the sale price. Brokerage firms (real estate agencies) that provide a full array of services charge a commission based on that level of service. Some firms provide fewer services and charge a commission rate based upon that level of services. Consumers are always free to attempt to negotiate a lower commission rate.

If you have any questions concerning the behavior of an agent or broker, you should contact the New Jersey Real Estate Commission. The Real Estate Commission cannot recommend a broker or agent to represent you, but it can confirm the status of a license. To check the status of a licensee, visit the Commission on the web at **www.dobi.nj.gov**.

Exclusive Buyer/Agency Contracts

The Exclusive Buyer/Agency Contract is an optional agreement that some brokerage firms (agencies) choose to present to their clients. Once signed, this contract is binding for both the agent and the buyer. The intent of these agreements is to make sure the buyer and his or her agent understand that the agent is working on behalf of the buyer, and the buyer will use the services of that particular brokerage firm (agency) exclusively for a designated period of time. If you are presented with this type of agreement, make sure your agent explains the content in detail and you fully understand and agree to what you are signing.

Finding Your Dream Home

Everyone's idea of a "dream home" may be different, so it is important to formulate a list of the features and benefits you would like in a home. Consider factors such as pricing, location, size, amenities and design. It often pays to attend several open houses where sellers open up their homes to potential buyers. You can see a variety of options to help you develop a list of your requirements. Your real estate professional will be able to provide guidance and help.

Consider these factors as you narrow your search:

- Quality and availability of schools and libraries;
- Proximity to work, major highways and mass transportation;
- Immediacy of shopping, religious centers, hospitals and recreation facilities/parks;
- Property tax rates, income tax rates and other community expenses as compared with similar homes in other neighborhoods (i.e., association fees, snow and trash removal, common ground maintenance);

- Utility expenses, trash collection and sewage disposal (past utility expenses are available from the utility company);
- Availability of public services such as police and fire protection;
- Local zoning ordinances and condition of other properties in the neighborhood.

Next, consider your priorities. If you can't find a home within your price range with all the features you want, then decide which features are most important to you. Would you prefer a large kitchen or an extra bathroom? Would you trade a bigger yard for a shorter commute? Write out this list and share it with your real estate professional. This will help your agent limit the search to only those homes truly of interest to you.

If you look at more than a few homes, they can quickly become a blur. To help keep track, refer to your list of priorities and make notes of which of your desired features are in each house. It is easiest to do this on the listing sheets that agents often provide for you, which can include a photo and certain information regarding the property. Afterwards, compile a worksheet based on your priorities and give each house a rating.

Pay Attention to the Details

Once you have begun to narrow down specific properties, go beyond the surface appearance and look carefully at each house. Be sure to examine the physical details and construction. Particular details about a home may be available in a **residential property disclosure form**, if the seller has completed one. This form is a questionnaire that gives you an overview of the physical history and condition of the property according to the seller's knowledge. The listing agent presents the form to the seller, who should complete it truthfully. It then becomes a part of the file on that particular property. Ask your real estate professional for a copy. As you progress through the home buying process you may also want to consider having a **home inspection** conducted by a professional third party *(see page 19)*.

New Construction

Building a new home presents its own set of complications. First, you must find a reputable builder who is involved in an area where you would like to live. Then you must evaluate various lots within the development and select a floor plan which suits your needs. Frequently the builder will have its own financing package, which you will want to compare against other mortgages from various lenders. If the home comes with a warranty, be sure to read it carefully and note what is covered and for how long. Consider having the **home inspected** by a professional third party *(see page 19)*.

Find a Builder

If you would like more information on new construction, visit the **New Jersey Department of Community Affairs** at **www.state.nj.us/dca/** (where you can access a list of registered New Jersey home builders and find information regarding the state's New Home Warranty Program).

It is very important to find out what is included with the basic home and what is considered an upgrade. Don't assume that all you see in the builder's model is standard. Most builders offer a wide range of options from doors and windows to flooring to countertops and fixtures.

Step 3: Making an Offer

Put it in Writing

Once you have selected a house, you need to make an offer. At this point, you may want to have a lawyer.

Legal Counsel

Many home buyers choose to be represented by an attorney during the home buying process; however, it is not a requirement. Since real estate agents and brokers cannot advise you on legal matters, an attorney will be your advocate in contract negotiations and any disputes that may arise before or at a real estate settlement.

While retaining an attorney is an additional expense, attorney fees will be much higher in the event of any legal action. An attorney you retain represents your interests only and can provide valuable assistance and advice.

Shopping for an attorney is comparable to shopping for a real estate agent. Look for reliable recommendations. Choose an attorney who has experience with real estate transactions, has represented home buyers before and is right for you. Be sure to ask what services are performed and what they cost.

Note: An attorney who acts as a general closing agent is usually retained by the lender or others involved in the transaction. This attorney does not represent the buyer in any dispute with the seller, lender or others involved in the transaction. **Only an attorney you retain represents your interests as the buyer.** To locate an attorney in your area, contact the **New Jersey State Bar Association** at **732-249-5000** to locate your county bar association for a referral.

Offer to Purchase

You, as the interested buyer, may work with your real estate agent to prepare a preliminary document called a "**purchase offer**" for the seller to consider. (Some agents will begin with a **contract of sale** – *see page 17*.) An offer to purchase is a written preliminary proposal that states what you are willing to pay for the home, the estimated closing date and certain other terms that you might want included in the contract that the buyer and seller need to agree

upon. (An example of this might be the inclusion of any appliances or light fixtures.) Remember, the terms of the offer to purchase may become a part of the actual contract of sale if your offer is accepted and a contract is signed.

Along with this offer you will typically include an **earnest money deposit**, a nominal amount to show that a buyer is serious about the purchase. This deposit will become part of your **down payment**, the total amount of cash for the home purchase that is not financed. This deposit should be placed in an **escrow account** – in this case, a monetary trust maintained by a third party (an escrow agent) to hold money safely while a sale is in progress.

The seller may accept your offer to purchase, reject it, or make a counter-offer. If a seller wants to change any part of the offer, you may receive a counter-offer specifying those changes. You have the option to accept the counter-offer or you may respond by presenting one of your own.

These counter-offers are sometimes verbally communicated between the agents and their clients, but should be memorialized in writing within 24 hours. Copies should be provided to all interested parties. Typically, this document and its contents are subject to the parties entering into a full contract and are not legally binding. In such cases, it is only when the contents of the offer to purchase become a part of the terms and conditions of the contract of sale that they become legally binding.

If, for some reason, you decide that you want to revoke your offer, you should immediately notify your real estate agent and/or your attorney if you have one.

Contract of Sale

A **contract of sale** is a legally binding document that sets forth the terms of the home purchase. If you started the negotiating process with an offer to purchase, the contract of sale will include the contents of the offer to purchase, as finally agreed upon by the parties, plus any additional details and terms. If the contract of sale is prepared by a real estate licensee, it must contain a provision known as the "**attorney review clause**," which provides that the buyer and seller have three (3) business days from the date that the completely signed contracts are delivered, to consult with an attorney. During this three-day period, if you choose to use an attorney, he or she may propose revisions to the contract on your behalf or render it null and void.

Your contract should clearly set forth the following terms:

- The total price you agree to pay;
- The amount of **down payment** you will make;
- Any and all escrowed deposits to date;
- Anything in the house or attachments that you would like to be included, such as appliances, drapes, chandeliers, fireplace tools, etc.;
- The amount of time after the offer is accepted you will have to arrange financing;
- When the transaction will "close" or title will transfer;
- When you will take possession of the property;
- Provisions for title searches, and insect, structural and other inspections *(see pages 19-21)*.

Note: If you choose to have an attorney prepare your contract of sale (this might be an additional expense), it may or may not include a **three-day review period.** Be sure to have your attorney explain your rights.

Deposits or Earnest Money

An earnest money deposit is made with the initial offer to purchase to show that the buyer is serious about purchasing the property. During the settlement process, the deposit money is usually applied as a part of the down payment towards the purchase price. Typically an additional deposit is made sometime while the contract is being executed. A scheduled date for this deposit is reflected on the contract.

An escrow agent specified in the contract will hold the deposit money in an escrow account. If the offer is not accepted, you are usually entitled to a refund of your deposit. If the transaction does not settle, there could be a dispute over who is entitled to the deposit. The matter could wind up in court for resolution. The contract may contain terms for the return or forfeiture of any earnest money deposit. Therefore, you need to read and understand this section of the contract carefully.

Step 4: Getting Ready for Settlement

Home Inspection, Title Search and More

Independent Home Inspection

It is highly recommended that you have a qualified, **independent home inspector** visit the property soon after a contract becomes binding. An inspector will evaluate the physical condition of the structure, construction and mechanical systems of the home, and identify defaults or any items that should be repaired or replaced.

It is a good idea to be present for the home inspection so the inspector can address any concerns or questions you may have. You will receive an impartial written assessment report of the property. If any defaults are revealed by the inspection, you and the seller are limited to time periods stipulated in the contract as to how long you have to provide the report to the seller and how long the seller has to decide if they will cure or correct any defaults. For specifics, consult your real estate agent and/or attorney. You can consult with your real estate agent for a list of home inspectors. There is a fee for this service.

Other Details to Consider...

Lead paint – In houses built prior to 1978, the seller must disclose any known lead-based paint and lead-based paint hazards. The seller must provide the buyer with a lead-based paint disclosure form and any records or reports in their possession. For more information, visit HUD online at **www.hud.gov/offices/lead/**.

Toxic mold – Contamination can lead to a variety of health and respiratory problems. Make certain your independent home inspector checks attics and crawl spaces for leaks and moisture that could support mold. For more information, visit the U.S. Environmental Protection Agency (EPA) online at **www.epa.gov/mold/**.

Radon – This is a colorless, odorless gas that, when trapped in buildings, can be harmful at elevated levels. Ask your independent home inspector if radon is a problem in your area and if it will be part of the inspection. For more information, visit the EPA online at **www.epa.gov/radon/**.

Asbestos – Prior to the 1970s, asbestos was used in many different insulation and fireproofing applications. You cannot tell whether a material contains asbestos simply by looking at it unless it is labeled. If in doubt, treat the material as if it contains asbestos, or have it sampled and analyzed by a qualified professional. For more information, visit the EPA online at **www.epa.gov/asbestos/**.

Megan's Law – Under New Jersey law, the county prosecutor determines whether and how to provide notice of the presence of convicted sex offenders in an area.

Off-Site Conditions – The clerks of municipalities in New Jersey maintain lists of off-site conditions which may affect the value of residential properties in the vicinity. Examples of such conditions are proposed construction in the area, or a nearby toxic waste contamination problem, etc. Purchasers may examine the lists and can independently investigate the area surrounding the property to become familiar with any off-site condition which may affect the value of the property.

Stigmatized property – The **residential property disclosure form** *(see page 15)* includes an overview of physical and material issues regarding a property. However, some home buyers are also interested in less tangible issues, or potential psychological factors of living in certain properties. Stigmatized property is defined as property that is in some way tainted due to factors unrelated to its physical condition. Some examples of stigmatized property are a house that is alleged to be haunted, or the scene of a violent death. Legally, the seller and agent are not obligated to disclose these issues up front. But if asked, the seller and agent are obligated to disclose any such issues of which they have knowledge.

Title Search

Most purchase agreements are conditioned upon a title search that guarantees that there are no liens and/or judgments that affect the property, including whether the seller is involved in a bankruptcy. This is done by professionals who examine records of ownership transfers and other liens and claims on properties. If someone else has a claim against the property, the seller's title to it is not "clear." In this case, you are not obligated to finalize the purchase. Your real estate attorney can evaluate the title and advise accordingly. With the exception of privately financed purchases, in essentially all cases your lender will require

you to purchase **title insurance**, which protects you and the lender up to the purchase price of the property in the event that title to the property is found to be invalid. This is a one-time fee paid at closing. (If you are privately financing the purchase, you should consider purchasing title insurance to protect you from claims against prior owners.)

Prior to closing, there are several other inspections and certifications that you, the seller, and/or your agent's office will order. Outside of the complete **independent home inspection** (*see page 19*) – and depending on what is necessary for your particular property – the following may also be required:

- **Termite (pest) inspection**
- **Land survey**
- **Well testing**
- **Septic certification**
- **Flood search**
- **Radon testing**
- **Smoke detector certification**
- **Certificate of occupancy**

Financing Review

You are expected to arrange the remaining steps of financing as soon as possible after your offer has been accepted. If you have not been **pre-approved** *(see page 8)*, mortgage loan processing can take from 30 to 90 days.

Many homebuyers – especially first-time buyers – are sometimes shocked when they see the total bill for their loan, and may not have a firm grasp on exactly what it is they are paying. These costs are to be expected, as they are part of the home-purchasing process, but it is advantageous for prospective home buyers to familiarize themselves with the most common terms and charges. If you are in doubt about any charges assessed, do not hesitate to ask the lender.

Some of the most common mortgage loan charges include:

Escrow account – A monetary trust account set up by the lender to which the borrower makes monthly payments toward future costs. For example, homeowners often pay a monthly amount beyond the actual cost of their monthly principal and interest payment, which is held by the company in

this type of account and then used to pay property taxes, homeowner, hazard, flood or mortgage insurance premiums, and other items as they come due. Often several months of escrow payments are required as part of a property settlement or closing and should be listed on your "**Good Faith Estimate**" *(see below)*. Be sure to ask your lender about any escrow payments that you do not fully understand.

Points – Points are charged by lenders to recover costs or to obtain a lower interest rate. One point is usually one (1) percent of your loan amount. There may be some flexibility with these costs and they may be negotiable.

Settlement or Closing costs – One-time expenses payable at closing are often required for mortgages. These can include loan application fees, credit report fees, appraisal fees, commitment fees, lock-in fees, inspection fees, title insurance and a survey fee. These costs are called **nonrecurring closing costs**, and should be listed on the "**Good Faith Estimate**" provided by your lender. Anticipate paying nonrecurring closing costs that are about 3 to 4 percent of the property's total sale price.

Note: You may also wish to ask your lender what methods of payment are acceptable, as certified checks or bank cashier's checks would need to be prepared by your bank in advance and taken with you to the settlement/closing.

Good Faith Estimate

Under the federal Real Estate Settlement Procedures Act (RESPA), the lender must deliver or mail to you a "**Good Faith Estimate**" of all of the costs and fees associated with your loan, and who is responsible to pay them, within three days of receipt of the mortgage loan application. If any terms of your loan change before closing day, ask for an updated "good faith estimate" so you will know how much money will be required of you at closing. Please remember that your good faith estimate is just that: an estimate. Closing costs may vary. Be sure to compare your estimate with actual closing costs and inquire with your lender about any differences.

Some tips to finalize your mortgage...

Get a loan agreement in writing – An agreement should describe the details of the loan and include a closing date.

Carefully read the loan terms – Given the prices of houses, differences in mortgage terms can mean thousands of dollars of savings or extra costs over the term of your loan. Do not sign anything you have not read or do not understand completely.

Review your Annual Percentage Rate –You will also want to know your **annual percentage rate (APR)**, which is the overall cost of credit including all associated costs of the loan. If your APR is .75 to 1 percentage point higher than the rate you were quoted, that is a sign that significant fees are being added to the loan. Know what they are and why you are paying them.

Review your Settlement Statement – The Settlement Statement (HUD-1) is prepared by the title company and itemizes all closing costs and transactions for the buyer and the seller. The totals define the buyer's net payment due at closing and the seller's net proceeds. Ask your real estate professional, attorney or lender to request a copy and review it with you.

Don't Forget Homeowner's Insurance

You will also need to obtain homeowner's insurance prior to closing. Your mortgage lender will not allow you to close the deal on your property without it. The companies you deal with for your other types of insurance may also be able to insure your home as well. But here too, it could pay to shop around. Visit the Department's web site, **www.dobi.nj.gov,** for a list of insurers that write homeowner's policies in New Jersey. A paid receipt and declaration of issuance must be presented at settlement.

(For more information on home insurance, see page 24.)

Note: Some mortgage companies will supply an insurance policy called "**forced coverage**" if a standard policy is not maintained. These policies are very expensive and protect only the interest of the mortgage company on the structure itself. It does not protect you or your belongings.

Step 5: Insuring Your Home

Home Insurance Basics

Imagine if everything inside your home (clothes, furniture, appliances, children's toys, CDs, DVDs, etc.) suddenly vanished. How much do you think it would cost to replace those things if they were destroyed in a fire? What if a thief took just one valuable possession, like a laptop computer or stereo? If your home is not protected by insurance, where will you get the money to replace its contents – or a whole new home – if disaster strikes?

You are also at risk of being asked for money, or even sued, by someone claiming to have been physically or financially hurt by something you own, or something you've done. A stranger who falls on your front steps may blame you, claiming that you ignored a loose brick or a dangerous crack in the cement. Your next-door neighbor may demand money if your sewer pipe breaks, pouring waste water into his garden or home.

Even if you think you already have adequate insurance coverage for all these misfortunes, chances are you have no coverage at all for some other kinds of disasters. **For example, did you know that ordinary home insurance policies won't pay for anything that is damaged or destroyed in a flood?**

Before buying a homeowner's insurance policy, it is important to:

- Understand the way homeowner's insurance works.
- Identify the kind of policy and coverage you really need.
- Avoid paying for coverage you don't need.
- Compare policies from different companies to find the best values.
- Protect yourself from improper sales practices.

Before contacting an insurer:

There are a few things you should know about how insurance companies work before you begin contacting companies. For the most part, insurance is sold either directly by a company or through an agent or broker. A company that deals directly with its policyholders is referred to as a **direct writer**. Agents and brokers are referred to collectively as **insurance producers** and may represent only one company or several.

When you first talk to an agent or company, you should be prepared to discuss your insurance needs and answer questions about your home or property. **Have pertinent information, such as the size, age, and construction type of your home ready beforehand.** You should also prepare a list of any questions you wish to ask.

A homeowner's insurance policy is a legal contract. It is written so that your rights and responsibilities (as well as those of the insurance company) are clearly stated. When you purchase homeowner's insurance, you will receive a policy contract. **Read the policy carefully, and make sure that you understand it.** If you have any questions, contact your agent or insurance company for clarification. Keep your policy in a safe place and know the name of your insurance company in addition to your agent or broker.

The FAIR Plan

In New Jersey, consumers who are unsuccessful in obtaining coverage through a standard company may apply to the New Jersey Insurance Underwriting Association, known as the FAIR Plan. When a property is rejected by a standard company, the owner is advised of the FAIR Plan. A property owner may apply to the FAIR Plan directly or through any licensed agent. The plan insures homes, mobile homes, rental units, most commercial buildings and business property. The FAIR Plan provides basic property coverage, but does not provide theft or personal liability coverage. Consider the FAIR Plan only if you cannot obtain insurance from any other source.

For more information about the FAIR Plan, contact:

New Jersey Insurance Underwriting Association
744 Broad Street, PO Box 32609
Newark, NJ 07102
(973) 622-3838 www.njiua.org

Note: New Jersey law provides that any person who includes any false or misleading information on an application for an insurance policy or on a claim is subject to criminal and civil penalties.

What is Covered by a Homeowner's Insurance Policy?

There are four types of coverage contained in the homeowner policy package:

Dwelling and Personal Property Damage Coverage – Property damage coverage helps pay for damage to the structure of your home or other buildings on your property, or for the loss of personal property. Covered losses can include:

- Household furnishings
- Clothing
- Personal belongings
- Detached garages or tool sheds

Typical coverage for "other structures" (structures other than the home itself) is 10 percent of the coverage limit on your house. The **personal property coverage** limit is typically 50 percent of the dwelling limit, but more can be purchased. Personal property coverage pays the **actual cash value (ACV)** of item(s) destroyed unless **replacement cost coverage** was purchased.

Actual cash value is the amount representing the current value of the item – as is. **Replacement cost** is the amount it would take to repair or rebuild your home or to repair damages with materials of like kind and quality at today's prices. (*See page 32.*)

Your policy may also include options such as:

Off-Premises Coverage

This protects your belongings when they are not on your premises, and replaces lost or stolen items with items of similar age and condition. For example, you may be reimbursed for the cost of replacing your suitcase and its contents with items of similar age and condition if lost or stolen while on vacation. If personal items are stolen from your vehicle they are covered only if there is proof of forcible entry, unless the items are specifically excluded by the policy or are specifically included under the vehicle policy.

Personal Property Floater or Endorsement – Your homeowner's insurance policy may provide only limited coverage for single items of high value, such as furs, jewelry, silver, electronics, musical instruments, and other valuables. It may be necessary to insure these valuables with a special addition to your policy, known as a **personal property floater** or **personal property endorsement**.

Miscellaneous – Your homeowner's policy does not cover your car, your pets or any damage your pets do to your possessions. However, your liability coverage will cover damage or injury that your pet causes to others or to their possessions.

Personal Liability Coverage – Personal Liability Coverage protects you against claims and lawsuits that result from damages or accidents occurring on or off your property.

If a family member or pet causes injury or property damage to others, the personal liability coverage pays for the cost of defending you, and for any damages for which you might be liable, up to the limit of liability stated in the policy.

Medical Payments to Others Coverage – Medical payments coverage pays only for medical services to someone outside your household if they are injured at your home regardless of fault. In some circumstances, this coverage will also pay if you cause the injury of another person away from your home. Medical payments coverage limits are generally $1,000 for each person. Higher limits are available for additional cost.

Additional Living Expenses – If a covered loss or **peril** (*see page 29*), such as a fire, forces you to live elsewhere temporarily this coverage may reimburse you for living costs beyond your normal expenses, such as the reasonable cost of a local hotel/motel or apartment complex, or additional food or laundry expenses.

Common Exclusions

All homeowner's policies include a list of **exclusions**, or things the policy will not cover. It is important to read and be familiar with the exclusions itemized in your policy.

ALL homeowner's policies exclude water damage caused by FLOOD. Flooding can include surface water, overflow of a body of water, or spray from any of these, whether or not driven by wind. The **National Flood Insurance Program (NFIP)** provides flood coverage to residents of designated communities that comply with the federal guidelines for flood prevention. (*See page 29.*)

Most homeowner's policies also do <u>NOT</u> provide coverage for:

- Normal wear and tear of personal property.
- Loss of animals, birds or fish.
- Damage to automobiles.
- Water damage due to sewer or drain back-ups – These losses are normally not covered by a homeowner's or flood insurance policy (*see above*). This coverage may be available separately as an additional **endorsement** (an amendment to a policy), but may not be offered when buying homeowner's insurance unless you ask for it.
- Damages resulting from war, nuclear hazard, neglect, earth movement, or power failure.
- Additional cost of repairs due to changes in building codes or local laws enacted since the home was built. Separate coverage may be available as an added endorsement.
- Watercraft – If you own a boat, you should ask your agent or insurer if it is covered. Some policies will cover small motorboats and sailboats, but not larger ones.

What is, as well as what is not, covered by your homeowner's policy will vary from insurer to insurer. Coverage for some specific exclusions may be obtainable from your company. Talk to your agent or insurance company about your concerns and ask what is available.

Flood Insurance

The **National Flood Insurance Program** provides coverage to residents of designated communities.

Telephone: 1-888-379-9531
E-mail: FloodSmart@dhs.gov
Web site: www.floodsmart.gov

Types of Policies

There are several types of homeowner's policies available in New Jersey. They vary according to the coverage in the policy and the type of dwelling being insured.

HO-1 Policy

An HO-1 policy, although available in New Jersey, is not popular. Coverage is limited and resembles a **dwelling policy** *(see page 30)*.

Broad Form (HO-2)

The broad form (usually called HO-2) covers only those **perils** as itemized in your policy. A **peril** is the cause of a possible loss; a **covered peril** is a peril for which the policy provides coverage.

Covered perils may include:

- Fire or lightning
- Windstorm or hail
- Theft
- Glass breakage
- Smoke

Check with your insurer for the specific perils covered by your policy.

Special Form (HO-3)

The special form (HO-3) provides comprehensive coverage for "all risks" *except* for certain specified perils, such as earthquake or flood. It is the most popular policy sold today.

Dwelling Policy

The dwelling policy provides property coverage only (protection for individuals and families against loss to a dwelling or personal belongings). Dwelling policies may be used to insure homes that do not qualify for homeowner's insurance. For example, they are commonly used to insure seasonal homes that are unoccupied for portions of the year. To qualify for dwelling insurance, a building does not have to be occupied by the owner, and it may even be under construction.

Note: You will also see the term "dwelling" appear in a homeowner's policy. In this context, "dwelling" means the structure in which the homeowner lives.

Renter's Insurance (HO-4)

If you rent an apartment or a house, the owner of the property is responsible only for insuring the building and for obtaining his or her own liability coverage. Therefore, you would be responsible for obtaining coverage for your personal possessions and your personal liability. The tenants form (H0-4), or renter's policy, insures your household contents and personal belongings against the perils included in the HO-2 policy. Like homeowner's insurance, it provides coverage for additional living expenses, medical payments coverage, and includes personal liability protection.

Condominiums – Unit Owner (HO-6)

If you own a condominium, you may have the protection of two separate insurance policies – one purchased by the condominium association and one you purchase yourself.

The association master policy covers the building, including any common walls and grounds, and includes personal liability protection associated with common properties. You have the right to examine the association policy.

To protect the contents and the interior walls of your unit, you may purchase a unit-owner form (HO-6). An individual unit-owner policy is similar to the renter's insurance policy. The HO-6 provides coverage for a condo owner who wishes to insure his property or to cover any items not covered by the association's policy, such as personal property, wall, floor and ceiling coverings and any

accessories not originally installed in the unit. It also provides personal liability protection.

The Condominium HO-6 policy also provides **Loss Assessment Coverage**, which will pay the unit-owner's share of any assessment charged to all unit owners by the condominium association when the assessment is a direct result of a physical loss or damage to the common property which is not covered by the association's insurance policy.

The standard unit owner's policy automatically provides a limit of $1,000 for each assessment relating to the residence's premises; however, higher limits of coverage may be purchased. It should be noted that major assessments for large complexes can be as much as $50,000 per unit owner; therefore unit owners may wish to consider a higher coverage option.

Underwriting Guidelines

Every insurance company has underwriting guidelines. Underwriting guidelines are the factors the company uses to determine which risks it will accept and which it will decline or refuse. Under current law, insurance companies have the ability to set their own underwriting guidelines and determine what "**risk factors"** are important to them. Therefore, owners of properties with older wiring or plumbing, a swimming pool, an underground heating oil storage tank, or a history of claims may need to contact a number of companies to obtain the coverage they want. Insurers may also ask that property owners with these "risk factors" carry a higher deductible before writing a new policy.

In addition, applications for property insurance may ask for personal information, such as the type of job you have, where you work, your leisure activities and details of any recent claims you may have had.

The New Jersey Department of Banking and Insurance does require that company underwriting guidelines not be arbitrary, capricious or unfairly discriminatory and must be applied consistently throughout the state.

Buying the Right Amount of Coverage

Location, location, location...

Where your home is located can affect the cost of your coverage. Are you in an urban, suburban or rural neighborhood? Are you near a body of water, such as the ocean, a river, or large stream? All of these factors can influence your **premium**, or what you pay for homeowner's coverage.

Before buying homeowner's insurance, it is important to consider the amount of coverage you need to have on your house and its contents. You need to think about:

- The kind of coverage you want and what you are willing to pay.
- The value of your home and its contents.
- Whether or not you want full coverage or are willing to share the cost of a loss with your insurer.

You will need to choose limits for the coverage you purchase. A **limit** is the maximum dollar amount the insurer will pay overall or under a particular coverage. In addition, you will also need to choose **deductibles**. In the event of a **covered peril**, a deductible is the amount of the loss which you (the insured) are responsible for paying before the insurance company pays. Choosing higher deductibles may decrease your premium.

Remember: The more **perils** your policy covers, the more you will pay for it.

Actual Cash Value and Replacement Cost

Before buying a policy, it is important to understand the difference between **replacement cost** and **actual cash value**. Typically, homeowner policies provide replacement cost coverage on the home and actual cash value on personal property.

Actual cash value is an amount representing the current value of the item, as is. **Replacement cost** is the amount it would take to repair, replace or rebuild your home with materials of like kind and quality at today's prices.

In order to qualify for replacement cost coverage, you generally must insure the dwelling to at least 80 percent of the replacement cost. Underinsuring your property may cause reductions in future loss payments.

Note | It is also important not to confuse **replacement cost** with **market value,** or **mortgage value.**

Market value is a real estate term that describes the current value of your home if you were to sell it, including the price of the land, at a given point in time. The value of the land your home sits on is not generally considered when determining amounts of insurance.

The **mortgage value** is the amount of money owed to the mortgage lender. Mortgage lenders generally require that the home be insured for at least the amount of the outstanding mortgage to protect the lender's interest. As a result, the market value or mortgage value of your home may vary greatly from the replacement cost. Discuss this matter with your insurance agent or representative.

Whether your home is insured for replacement value or actual cash value, it is important to keep track of the home's value. A room addition, new insulation, and yearly inflation all increase the replacement cost of your home while the actual cash value may decrease over time. Check with your agent or insurance company at least once a year to be sure that your policy continues to provide adequate coverage.

Special Deductibles

In addition to the standard deductibles in a homeowner's policy, there are also separate deductibles that you may encounter.

Wind loss deductibles – This is a separate deductible from the standard homeowner's policy deductible that applies to all other perils.

Hurricane deductibles – Some insurers have begun including hurricane deductibles in homeowner's policies, which are higher than the standard homeowner's policy deductible. These deductibles apply only to losses from storms designated as hurricanes by the National Weather Service.

Optional coverage that may be available from some companies

- Credit Card Forgery and Depositors Forgery Coverage Endorsement
- Identity Theft
- Personal Recreational Vehicles
- Secondary Residence Premises Endorsement

Compare Premiums

Comparison shopping for homeowner's insurance can be worth the effort. Be a wise consumer and shop around for the product that is best for you. Insurance companies vary greatly in the price of their policies and in the level of service they provide to consumers. For rate comparison information, visit the Department's web site, **www.dobi.nj.gov**.

Terminations, Denials and Cancellations

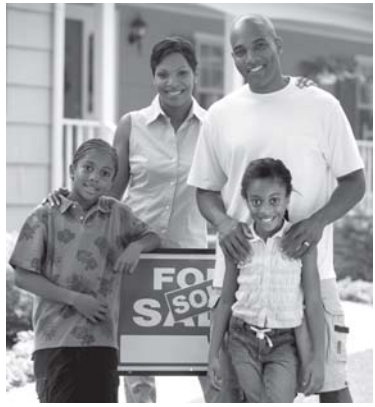
New Policies – When a policy first takes effect, the insurer has a right to cancel that policy any time within the first 60 days for any reason not otherwise prohibited by law. The cancellation is not effective until at least 10 days after the insurance company mails or delivers to you a written notice of cancellation.

Renewal on Altered Terms – Sometimes an insurer will renew a policy, but will raise the rates or make the terms less favorable. An insurer is not allowed to change the terms of coverage unless it gives written notice of the changes to the insured, along with the renewal offer. To be effective, the notice must be mailed no less than 30 days before the renewal date.

Non-renewal – Non-renewal of a policy refers to the termination of a policy at its expiration date. If the insurance company decides that it does not want to renew your policy, it must mail or deliver to you a written notice at least 30 days before the expiration date. The non-renewal or cancellation notice must include the specific reason for the non-renewal or cancellation as well as the facts that make that reason applicable to your policy. Refer to your insurance policy for a list of the reasons your company may non-renew your policy.

Termination for Non-Payment of Premium – Any insurance company will terminate coverage if the premium is not paid on time. There is no grace period for premium payments for homeowner's insurance. Always be sure to pay your premiums promptly.

Step 6: Sealing the Deal



If you have followed Steps 1 through 5, you have now succeeded in deciding what type of home is right for you, finding and contracting for a property, securing your financing and obtaining insurance protection. Now you are ready to seal the deal and open the door of what will soon be your new home.

Settlement Statement

As you draw near to your closing date, it is recommended that you review a copy of your Settlement Statement (HUD-1). Ask your real estate professional, attorney or lender to request this document from the title company and review it with you. The HUD-1 provides the total amount of cash you'll need at closing and details how those funds will be disbursed. The HUD-1 must be given to the buyer at, if not before, closing.

Remember: Verify acceptable methods of payment with your lender – in most cases you will need to have a certified check or bank cashier's check made out in advance to bring with you to the settlement/closing.

Final Walk-Through

A final walk-through of the house should be done on the day prior to settlement/closing. This final inspection gives you the opportunity to be sure the seller has moved out and completed any repairs agreed upon in the sales contract or as a result of a home inspection report. During the walk-through, make sure that all systems (for example, heating and cooling) are working properly and any appliances or other items the seller agreed to leave behind are in the house and in good working order.

Closing

In New Jersey, most settlements, or closings, are done in a face-to-face meeting of the buyer, the seller, the real estate agents, the lawyers, the title clerk and the representative from the mortgage company. The closing can take place at the office of the attorney, real estate agent or title insurance company. At this time,

the buyer will generally have to pay the balance of all monies owed to the seller and closing costs. This money could be disbursed either by your attorney or the closing agent.

Before You Sign on the Dotted Line...

It is very important that you read and understand all documents presented to you at the closing before signing them. Once you have signed them, it is presumed that you are in agreement with, and are subsequently bound by, the terms.

After all the papers are reviewed, explained, signed and exchanged and the seller is paid, you – the buyer – will be handed the keys to your new property.

Remember: Don't forget to ask for keys to the mailbox and shed, the remotes for the garage door opener, and security codes, etc., if any.

Recording of the Deed and Mortgage

The deed and the mortgage that you received must now be recorded in order to establish your clear title to the property. This is usually done by the title agent or your attorney. Be sure that these arrangements are made and completed as soon as possible after the closing. Request that a copy be provided to you.

Making Your Dream a Reality

Although the real estate process can be complex, purchasing your new home can be a rewarding experience. As mentioned earlier, this is one of the largest and most important investments that you will make in your life. You are looking for more than just a roof over your head. You are looking for a home, a place to express your values and lifestyle, a place to share time with family and friends, a place to retreat at the end of the day. Remember, advanced planning and making sure you have educated yourself regarding the process of buying a home can relieve a great deal of the anxiety and represent the first steps in achieving your dream.

For More Information

Have a question related to real estate, mortgages, or insurance? Contact the Department's Consumer Inquiry and Response Center

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New Jersey Department of Banking and Insurance - Consumer Inquiry and Response Center
P.O. Box 471
Trenton, NJ 08625-0471

(609) 292-7272 or **1-800-446-7467**

File a complaint online:
www.dobi.nj.gov/consumer.htm

Visit us online at

www.dobi.nj.gov

New Jersey Department of Banking and Insurance