

# The Massachusetts Homeownership Collaborative

## HOMEBUYER COUNSELING CORE CURRICULUM

### SECTION III: THE HOUSING SEARCH PROCESS

#### Section Objectives:

- To prepare participants to look for a house
- To provide participants with information on selecting and working with real estate professionals
- To prepare participants to make an offer on a house

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### A. WHAT KIND OF HOUSE IS BEST FOR YOU?

Think about the kind of home that will meet your family's needs and begin to develop a list of expectations you have for your new home. Prioritize. No one house will have everything you seek, but the home you ultimately purchase should meet as many expectations as possible.

- How many bedrooms are required? How many bathrooms?
- Will you need to accommodate an elderly relative unable to negotiate stairs?
- How much parking will you need?
- Do you need a safe play area for children?

Develop a "must have" list and a "wish" list to use as you begin to look at houses.

### Types of Homes

- **Manufactured Home.** Formerly known as mobile homes, manufactured housing must conform to building codes established by the U.S. Department of Housing and Urban Development (HUD) in 1976. Built in a factory, it is then transported to the home site and built on non-removable steel chassis. Manufactured homes can be less expensive than traditional single-family homes, however, not all lenders have programs for manufactured housing, nor do all communities allow them. Also, some manufactured homes are built on leased land, rather than owned land, which can lead to additional difficulties. Generally, lenders that finance manufactured homes on leased land require 20% down payment. On the other hand, closing costs on such properties could be lower.
- **Condominium.** A condominium is a form of homeownership in which the owner purchases a unit and then has a vote in the condominium association, which owns and operates the common areas. For some, a condominium provides homeownership with the freedom of apartment living and fewer maintenance responsibilities. However, living space is often limited (which may be a problem for growing families) and there is a risk of increasing condominium fees and/or costs for unexpected repairs and assessment. Also, condominium fees are generally included in the underwriting ratios, which can make them more difficult to afford. When buying a condo, always request a copy of the operating budget, which should include a capital improvement line item.
- **Single Family Home.** Among single-family homes, there is a choice between new construction and older homes. An older home may be roomier and more affordable but may need repairs or rehabilitation. A new home may have a more efficient heating system, better insulation and lower maintenance costs.

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- **Modular Home.** A modular home is built in sections in a factory and then transported on truck beds to the home site for construction. Modular homes meet or exceed state and local building codes. Modular homes are different from manufactured homes and are eligible for the same financing as traditional site built homes. Modular homes are sometimes less expensive per square foot than new construction site built homes.
- **Multi-family Home.** A multi-family home has tax and income advantages. But, being a landlord has many responsibilities, including tenant search and selection, leases, security deposit procedures, possible evictions and emergency repairs. Homebuyers interested in multi-family homes should be encouraged to attend special classes on multi-family homeownership to learn more about the responsibilities of being a landlord. There are also different types of homeownership options, including co-housing, limited equity coops, and shared ownership among non-family members.

### Choosing a Location

After deciding on the type of property, the next step is choosing a location. Things to think about:

- Type of neighborhood
- Housing costs
- Commuting time
- Access to public transportation
- Availability of churches, shopping, day care facilities, etc.
- Quality of the public schools
- Proximity of family and friends

In comparing neighborhoods, you should consider;

- Are there vacant or neglected lots?
- Are there children in the neighborhood?
- What is the general condition of most homes?
- How does the house you are considering compare in style, size, price and living space with neighboring houses?
- Have there been many conversions of single-family dwellings into apartments or rooming houses?
- Are most of the homes owner-occupied? Housing is often better taken care of when the owner lives in or near the property.

### B. HOW TO FIND A HOUSE

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- **Real estate ads on-line and in the newspaper for housing prices in the community where you would like to live. Sources include the Multiple Listing Service (MLS), Zillow.com, realtor.com, and trulia.com, among others. Watch to see how long properties have been on the market. This is an indication of possible, though not definite, price reduction.**
- **Scout neighborhoods you might be interested in. Spend some time there at different times of the day if you're serious.**
- **Drive around to look for "For Sale" signs**
- **Talk with friends, acquaintances and people at work**
- **Check with community development corporations or other non-profit affordable housing organizations for listings of foreclosed properties. See the supplemental section on How to Purchase a Foreclosed Property for more information on this as well.**
- **Watch for affordable homeownership lotteries in your area. Many communities throughout Massachusetts develop affordable homes that are sold through lotteries at below market prices to eligible low and moderate income households (some of these are Chapter 40B developments). Check out your local paper for ads for upcoming lotteries, or call your local community development or planning office. Several website have many listings: [www.chapa.org](http://www.chapa.org), [www.massaccesshousingregistry.org](http://www.massaccesshousingregistry.org), and [www.massaffordablehomes.org](http://www.massaffordablehomes.org).**
- **Work with a real estate agent**

### C. POTENTIAL ALTERNATIVE BUYING OPPORTUNITIES

*Below are other ways to buy a home; the first-time homebuyer should be cautious, however; more often than not, these are much more risky deals and may not be appropriate.*

*Note that these sections are not bolded, and are therefore not required as part of the Core Curriculum.*

#### For Sale By Owner (FSBO)

Buying a home that is For Sale By Owner can be a way to trim costs because the seller is saving on a real estate commission, and may pass that savings onto the buyer. However, there are some things to keep in mind when using this approach:

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- Sellers may not know the true value of the house, and therefore might set the sales price higher than the home is actually worth (the house may therefore stay on the market longer). Sellers may not get a market analysis by a real estate agent or an appraisal performed before they put the house on the market. For the buyer, it may be difficult to tell the true value of the home, and you may need to work with a buyer's agent to help you with that.
- Sellers often don't hire a real estate attorney to handle the transaction, and may not use proper protocol when using an Offer to Purchase, and the Purchase and Sales Agreement. Buyers will want to make sure to have their own real estate attorney review any documents when buying a home that is For Sale By Owner, before signing any documents.
- Sellers may not know they need to provide a "Sellers Disclosure of Property" that describes the conditions of the house, as they know them. Typically, the sellers' real estate agent would provide the buyers with this.
- Sellers may be more emotionally involved in the transaction, and may have difficulty managing prospective buyers professionally.
- Homes that are For Sale By Owner are not advertised on the Multiple Listing Service (MLS).

### Foreclosures

Foreclosures come about when an owner defaults on his or her mortgage. After following specific legal procedures, the lender sells the property at public auction. The process and the rights of the prior owner are governed by law.

The buyer must bring a sizeable certified check in order to bid. The Closing must take place according to the auction terms and usually occurs in a relatively short period of time. *Buying at a foreclosure auction is not recommended for the first time home buyer. There are tremendous risks in this approach.*

### Real Estate Owned (REO) Properties

"Real Estate Owned" properties come about when the lender buys the mortgaged property at its own foreclosure sale and then offers it for sale on the open market. If the lender is a bank, they are usually quite eager to get the property sold as soon as possible, since owning the property is costly. The property must be maintained, heated, cared for and kept insured. Additionally, the real estate taxes must be paid. While it is possible that the price might be more favorable to the buyer, a bank may be less

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flexible with its sale terms and not open to negotiations. Many times the properties are simply sold “as is.”

### Short Sales

“Short Sales” come about where a seller has a mortgage which cannot be paid off by the sales price. This is usually due to the seller buying the property when prices were very high during the last real estate boom and now the property value has dropped so much that the property is worth less than the amount the seller owes on her mortgage. In this situation, the seller needs to ask their lender to accept less than is due and still release the mortgage.

The challenge with a “Short Sale” is usually with the logistics. Most lenders require the seller to market the property and obtain a bona fide Offer in an arm’s length transaction. Then, only after the Offer is presented to the bank, along with the other information and documentation they require to make the decision, will the bank make a decision. In some cases this can take many months for a decision and, ultimately, the lender may deny the request. The risk to the buyer is that the transaction could tie-up the buyer for months and, after the long delay, the deal may not close. Buyers must be sure that they do not lose their mortgage commitments while waiting for a decision by the seller’s lender, and recognize that they may lose other opportunities to buy another home during the waiting period.

### D. HOUSE HUNTING TIPS

As you go from house to house, remember that a big factor is exhaustion. It’s not just being physically tired; it’s the fact that after a while all the houses start to look the same. Keep in mind:

- **Always take a smartphone or a notepad and map with you.** Mark the location of the house and note special features.
- **Use a checklist to note important features.** Use it to compare with your “must have” and “wish” lists and to compare different houses.
- **Try not to look at more than three houses at a time.** After that, you are no longer being careful.
- **Take pictures of the houses that appeal to you.** Take pictures inside only with the seller or realtor’s permission. You will remember the features of a house better once you see a picture of it.
- **Make a rough sketch floor plan of the homes that you consider “top contenders”** – this is a good way to compare one house with another.
- **Don’t be afraid to ask questions.** Many buyers worry that the agent will think them foolish if they ask questions. But, there are no foolish questions! As a first-time homebuyer, you will want to know everything you can about

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each property. Often, questions about pipes, heating or cooling systems, taxes, age of the home or recent repairs will lead to other questions. You may find areas of concern about a specific property that initially looked trouble free.

- **Talk with neighbors.** They are often quite willing to tell you more about the neighborhood and the property you are interested in.
- **Check for additional items** if you are looking at a distressed property (repairs, how long the unit has been vacant, is this a short sale, who currently has ownership, what are the comparable market values in the neighborhood)

### E. TYPES OF REAL ESTATE PROFESSIONALS

Most home purchases are done with the assistance of a real estate professional. It is important to understand the type of real estate agent a buyer is working with before starting the process.

Massachusetts law requires every licensed real estate agent to disclose to the buyer the type of agent they are. This is accomplished through the agency disclosure form.

#### Types of Real Estate Professionals:

- **A Real Estate Broker is a person licensed to act as an agent for an owner or prospective buyer, and for consideration sells, rents, exchanges, or negotiates on behalf of the principal.**
- **A Real Estate Sales Agent works for a Real Estate Broker as a sub-agent, and is also licensed by the state.**
- **A Realtor® is a licensed real estate professional who is a member of the National Association of Realtors (NAR) and subscribes to their code of ethics. NAR is the largest trade organization of real estate professionals in the nation.**
- **A Realist is a member of the National Association of Real Estate Brokers (NAREB). NAREB is a trade association founded by African-American real estate brokers in 1947. Realists support the NAREB mission to enhance the economic improvement of the minority community they serve and are bound by NAREB's standards of conduct.**

Real estate agents can differ in whom they represent and how they are paid:

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- A *listing agent* legally represents the seller and is required to get the best terms and conditions for the seller. A buyer who sees property with the listing agent is a customer. This agent is bound to treat all parties fairly and honestly. A listing agent is paid by the seller from the proceeds by a negotiated commission, usually a percentage of the purchase price.
- A *selling agent* also represents the seller exclusively. A buyer who sees property with a listing agent is a customer. This agent is bound to treat all parties fairly and honestly. A selling agent (or sub-agent) is generally paid by the seller through an agreement with the listing agent.

A *buyer's agent* works exclusively for the buyer. A buyer's agent legally represents the buyer, and is required to get the best terms and conditions for the buyer. A buyer who sees property with a buyer's agent is a client. This agent is bound by fair housing laws to not discriminate. A buyer's agent may be paid directly by the buyer or from the seller directly out of the proceeds of the sale.

- A *facilitator* simply facilitates the transaction between the seller/listing agent and the buyer. The facilitator acts as a neutral party in the transaction and can assist the buyer in a limited role by setting up showings and forwarding pertinent documents between parties. It is important to keep in mind that a facilitator has no loyalty to either party and is not obligated to serve or protect the interests of the buyer.
- A *disclosed dual agent* legally represents the interests of both the seller and the buyer in the same transaction with full consent of both parties. A disclosed dual agent must give written information about this practice to both parties and get their written consent. This agent is bound to treat all parties fairly and honestly, without owing undivided loyalty to either party. A disclosed dual agent is either paid by the seller, or by the buyer, or both, generally from the proceeds of the sale.

All commissions are negotiable. There can be no real estate industry standards for commissions. This is price-fixing, and it is illegal. Each office's rates are different.



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### F. WORKING WITH A REAL ESTATE PROFESSIONAL

#### A Real Estate Agent Will:

- Generate a list of homes that meet your requirements (see description of MLS, below)
- Show you the houses that meet your requirements
- Provide you with information about a community
- Present your offer to the seller
- Advise you regarding mortgage lenders, real estate attorneys, professional home inspectors and title companies
- Provide market analysis and price comparisons of properties

#### Before Working With a Real Estate Agent:

- Know your housing priorities
- Know what you can afford and what your highest offer will be
- Know what kind of real estate agent you want to work with before disclosing personal and financial information and before looking at any properties

#### Finding a Real Estate Agent:

- Find an experienced agent who works primarily in the area you are interested in and who has access to the MLS
- Ask for a referral from a friend who has bought a home recently
- Find someone you like and trust: if you don't work well with them, go somewhere else

#### Hints For Working Successfully With a Real Estate Agent:

- Ask lots of questions about a property: they have to give you truthful answers, but they may not tell you what you don't ask! Both sellers and real estate agents can be held liable if they fail to tell the buyers of known defects in the house.
- Never let an agent show you a house that you have already been shown by another agent.
- Look at as many houses as you need to. Don't let an agent push you to decide on a house or make an offer if you're not ready.

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- If you are working with a seller's agent or facilitator, assume that anything you say will be communicated to the sellers. Don't be too enthusiastic about a house; it may hurt you in the negotiation process.
- Use a house evaluation checklist when viewing houses. Take your list of requirements with you.
- Visit several houses before making a decision to buy.
- Don't make a decision without seeing a property at least twice.

### Multiple Listing Service

Properties that are listed for sale with real estate brokerage offices are included in the Multiple Listing Service (MLS). The MLS publishes an on-line service for buyers to access, which is used by most licensed real estate agents to identify properties listed for sale. Check the MLS often. Property information changes constantly. Properties are sold. New properties come on the market. Prices are changed and listing agreements expire.

*Note that while the MLS tends to be the best go-to source for many, buyers can also find other sources of home listings, including home-pages of real estate firms, realtor.com, Zillow.com, trulia.com, HUD (www.hud.gov), non-profit community-based organizations, MassHousing (www.masshousing.com), Massachusetts Housing Partnership (www.mhp.net) Fannie Mae (www.fanniemae.com), CHAPA (www.chapa.org), MassAccess Affordable Housing Registry (www.massaccesshousingregistry.org), Mass Affordable Homes (www.massaffordablehomes.org), etc.*

## G. MAKING AN OFFER

### Information You Will Want to Obtain Before You Make an Offer:

- **Who Owns the Home?** Ownership is a matter of public record. With the address, you can find out the name of the owner from the local Assessors Office. Verifying ownership will also help determine if the property is bank owned and thus had been foreclosed.
- **What is the Tax Assessed Value?** The tax-assessed value is also public information available through the Assessors Office. Properties are generally assessed every three years. The tax-assessed value is often lower than the sales price and generally has no reliable relation to the worth or appraised value of the property.

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- **When Was it Purchased and For How Much?** This information is also public information and is available through the local Registry of Deeds and on-line (you will need to know the owner's name, available through the Assessors Office). You can also get information on loans on the property. The municipality's building inspector's office has a record of improvements that received a building permit.
- **What is the Condition and Age of the House?** What will be the cost of repairs? Are the sellers willing to assume any repair costs (or make adjustments in the price)? If your home inspector identifies any structural or other problems, this may be an area of negotiation.
- **What are the Taxes and Insurance on the Property?** The real estate agent, owner or the local government can tell you what the taxes are on the property. Typically, this is included on the listing sheet from a real estate agent. The real estate agent or owner can also tell you what the insurance costs are. Alternatively, you can call insurance companies and ask the rate. Compare neighborhoods: what are your taxes paying for? Are insurance rates higher here or there?
- **What is included in the price?** Are the sellers including appliances, chandeliers, window treatments, etc.?
- **What are Similar Properties Selling For?** You don't want to overpay. Find out what similar properties are selling for in the neighborhood. Banker & Tradesman, available in libraries, at some newsstands, and on-line, lists all sales for the whole state every week. Look back at least three months. As you become familiar with a given market area and housing type, you will become knowledgeable about the price that the market will bear.

*Note: The role of an appraisal in making an informed offer is covered in more detail in the section on Appraisals.*

- **How Long Has It Been on the Market?** Has the price already been reduced? You might not know this unless you track ads in the paper or MLS listings, which should say when the house was put on market. The information can be hard to learn, but can help you to determine your offer amount.
- **Is the Owner Eager or Pressured to Sell?** Property listings that state "Subject to Third Party Approval" indicate that acceptance of the terms of the sale will have to be approved by another entity. This usually means that the property is a "Short Sale" where the owner needs to sell the property but because market values do not support the loan balance owed, they must first negotiate an agreement with their lender. The only time you know for sure is in an estate sale when the property has to be liquidated to satisfy the heirs. Unless you're able to find out through the grapevine, it might just be speculation.

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*Note: Condominium buyers need additional information. Encourage homebuyers interested in condominiums to attend special classes.*

### Other Things You Should Know Before Making an Offer:

- **Know the highest price you will pay.** If you do not know your limit before negotiations begin, you may get caught up in the emotions of the process and end up settling on a price that is too high for your budget (or worse, you could pay more for the house than its true market value!).
- **Do not indicate to the real estate agent the highest price you are *willing to pay*.** Most agents (unless you work with a buyer agent) legally represent the seller. This means that the agent is legally obligated to negotiate the best possible price for the seller.
- **The agent must, by law, present every formal offer to the buyer.**
- Your first offer should generally not be the highest price you can afford.
- **Know if the property is either a bank owned or short sale.** These transactions typically take longer, are more complex and, provide additional risks to the buyer. Bank owned properties, or REO's, are usually sold "as is" meaning the selling bank is not willing to negotiate any variation of terms or conditions; whatever the condition of the property is what the buyer must accept. While you can negotiate a lower price, a buyer could risk purchasing a property that needs extensive repairs.
- **Beware of the practice of asking a buyer to waive contingencies in order to get an offer accepted. There are consequences to doing so, and it is generally not recommended.**
- Give yourself some room to negotiate with the seller. Although most of us are not accustomed to bargaining, and may feel uncomfortable doing so, remember that negotiation is part of the process of buying a home.

### Negotiations

**In most cases, the sellers will return with a formal counter-offer.** The seller's counter-offer may be very close to the list price or it may reflect a compromise between your offer and the list price. If the latter is true, it shows you that the owner is willing to negotiate.

**You must now decide either to accept the counter-offer or make a new offer based on the seller's counter-offer. This can go on until either (a) both buyers and sellers agree on a price or (b) you agree that you will not agree on a price.**

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Don't be afraid to negotiate! It's part of the process. Be patient and flexible. If the sellers refuse your final offer, it's not the end of the world. At best, the price may come down in the future; at worst, you will find another perfectly acceptable home somewhere else. Keep looking!

### Offer to Purchase Document

*The Offer to Purchase will be covered in more detail in the Legal section of the counseling program. The objective here is to provide homebuyers with an overview.*

The Offer to Purchase document is a legally binding document. The offer is submitted with "earnest money" of (*instructor should indicate typical dollar amount for the local market*) held in an escrow account by the real estate agent pending acceptance. If your offer is accepted, the money counts toward your down payment. Don't sign the Offer to Purchase without reading it carefully. Make sure a standard form (Massachusetts Association of Realtors or other) is used. Always consult an attorney when entering into a legally-binding contract. The decision on how much to offer is your decision alone.

Once an offer is accepted, you have the time specified in the Offer to have a home inspection done and to negotiate a Purchase and Sale Agreement that is mutually acceptable to you and the seller. This process will be covered in subsequent classes.

## H. FAIR HOUSING LAWS

The Federal and State Fair Housing Laws prohibit housing discrimination based on: race; color; national origin; religion; gender; familial status (families with children); disability (handicap); source of income (public assistance and/or housing subsidy recipients); marital status; age (excludes minors); sexual orientation; and military history.

These categories are known as protected classes. The Act covers all aspects of residential real estate transactions including applying for a mortgage, home loan and homeowners insurance. In housing transactions, no one may take any of the following actions based on any of the protected classes:

- Refuse to rent or sell dwelling unit
- Refuse to negotiate for a dwelling
- Represent that a dwelling is not available when such dwelling is, in fact, available
- Set different terms, conditions or privileges for rent or sale of a

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dwelling

- Advertise or make any statement that indicates a limitation or preference based on race, color, national origin, religion, gender, familial status, handicap, source of income, marital status, age (excluding minors), sexual orientation and military history.

### Be suspicious if:

- You are only shown properties in certain neighborhoods
- You are only shown properties in neighborhoods where the population shares your racial/ethnic background
- You are told you will feel “more comfortable” in certain neighborhoods
- You call to make an appointment to see a house but when you get there you are told the house has been sold, or is under agreement and you are discouraged from touring it
- You have continuously called a real estate agent to see a particular house but every time you talk to the agent s/he is unable to make an appointment for you
- You are told a higher selling price than what was advertised or what you hear others being told
- You are not given the opportunity to negotiate

### Filing a Complaint

If you have experienced any one of the above actions, you may be a victim of discrimination. If you think your fair housing rights may have been violated, this is what you can do:

- **Write it Down.** Create a “timeline” of what happened when you tried to buy a place to live, obtain a mortgage or homeowner’s insurance. Be sure to include: 1) An outline of what happened (who, what, where and when), 2) The name, address and phone numbers of all people involved, 3) Any ads or online listings you saw for the house, mortgage company/bank or insurance agency, and 4) Any and all paperwork you were given including business cards or flyers
- **Contact an agency specializing in fair housing.** The Fair Housing Center of Greater Boston will work to resolve the matter by working with you directly or by forwarding your case to a lawyer (some lawyers will take cases with the understanding that they will only get paid if you win the case). You can also contact the U.S. Department of Housing and Urban Development (HUD), or the Mass. Commission Against Discrimination (MCAD).

### Why Should You Bother to Challenge Housing Discrimination?

Complainants (those who file a housing discrimination complaint) who challenge

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discriminatory housing practices could receive:

- The housing they wanted
- Compensation for costs such as moving expenses or fees for temporary housing
- Payment for any emotional damages suffered as a result of discrimination
- An order prohibiting future discrimination or requiring the owner/agent to rent to other home-seekers who are members of a protected class
- Their lawyer's fees paid (some attorneys will take cases with the understanding that they will only get paid if you win the case)
- The satisfaction of knowing that they challenged discrimination and that other people may not go through the pain and frustration they experienced

### I. WHAT YOU NEED TO KNOW ABOUT LEAD PAINT

**The federal government banned lead-based paint from housing in 1978 however; many homes built before 1978 potentially have lead paint hazards. Lead from paint, chips, and dust can pose serious health hazards if not taken care of properly. You should keep this information in mind when looking for a home, because many older homes in Massachusetts potentially contain lead-based paint.**

People can get lead in their bodies by breathing or swallowing lead dust, or by eating soil or paint chips containing lead. Lead is especially dangerous to children under the age of six, and some research suggests women of childbearing age may also be at risk.

In children, even low-lead exposure can cause nervous system and kidney damage; learning disabilities; speech, language and behavior problems; and, decreased muscle and bone growth.

Lead-based paint is usually not a hazard if it is in good condition and is not peeling, chipping, or otherwise damaged. You can determine if your home has lead by having a lead paint inspection. A lead paint inspection will tell you whether your home has lead-based paint and where it is located. A risk assessment will tell you if the home currently have any lead hazards, and what actions to take to address them.

**Sellers have to disclose known information on lead-based paint before selling a house. Sales contracts must include a disclosure about lead-based paint.** Homeowners offering rental housing would be well advised to test and remedy lead paint in rental units. This issue is covered more fully in Section X: Multi-Family Ownership.