



## YOUR HOME BUYING PACKET

Compliments of  
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# A Complete Guide to the Home-Buying Process

Whether it is your first home, your tenth home or an investment property, we will make your home-buying experience as stress free and enjoyable as possible. We can help you find the ideal home with the least amount of hassle; and we are devoted to using our expertise and the full resources of our office to achieve these results!

Purchasing a home is a very important decision and a big undertaking in your life. In fact, most people only choose a few homes in their lifetime. We are going to make sure that you are well equipped and armed with up-to-date information for your big decision. This packet gives you helpful information during and after your transaction.

We look forward to meeting your real estate needs every step of the way!

## OUR PHILOSOPHY

To serve our clients and colleagues in a  
Professional, courteous and mutually  
Respectful manner

- We will provide all local information and consult with our buyers as to their best options.
- We will assist our buyers in obtaining mortgage pre-approval and funding.
- We will coordinate a smooth and efficient home search process.
- We will provide pricing research and consult with our buyers on the terms of all offers.
- We will personally present our buyer's offer, negotiate it to final agreement and consistently protect their interests.
- We will coordinate the entire closing process.
- We will coordinate the occupancy of the home.
- We will review final documents and will advise our buyer about the closing process.

## WHY YOU NEED A REALTOR

As licensed real estate professionals, we do much more than just show homes. Realtors® provide a wide array of services from start to finish and help you navigate through the myriad of paperwork, tasks, and potential roadblocks to the ultimate goal of purchasing a home. We are members of the National Association of Realtors (NAR) and must abide by a Code of Ethics and Standards of Practice enforced by the NAR. When you work with us as your Realtors, you can rest assured that you are working with agents of high moral character and integrity.

LET US BE YOUR GUIDE — Here are just a few of the things we will do to get you to your goal:

- One of the first questions we will ask is: "Why are you moving?" We will also discuss any time constraints you might have, your financial situation, and any future plans. We want to understand your motivation and your individual situation so we can best advise and help you.
- We can provide a list of lenders that can preapprove you and ultimately get your loan done once you get a home under contract. Our list contains only lenders that have provided great service for our clients in the past. Picking an unknown lender off the internet is fraught with peril! \*\*We do NOT receive any fees or kickbacks from anyone on our list\*\*
- We have broad and current knowledge of the financing options to homebuyers - and there are many of them. We can assist you in evaluating mortgage options and "deciphering" the mortgage process related to your home purchase. Additionally, we stay in constant contact with the lender during the entire process. Many Realtors don't understand that there are specific deadlines that must be met during the contract period; failure to watch those deadlines could result in a forfeited escrow deposit. We don't leave our buyer's money to chance; we manage transactions professionally.
- When it is time to look at homes, we will set you up on a search of homes that match your given criteria, make appointments to see homes and show you homes. Our years of experience help us point out items to look for when viewing properties. Surprises in real estate are generally not good...we want to avoid those. And knowing upfront what issues there may be with a particular home will help us to make the right offer.

□ When you find a home that you love, we will assist you with determining what to offer. We will write the offer on the appropriate legal contracts and guide you through the contract's legal points, highlighting the most important parts. We will then send the contract to the seller's agent and start negotiating on your behalf. We bring objectivity to the buying transaction, and will point out the advantages and the disadvantages of a particular property.

□ After we get a contract on the home of your choice, the real work will begin! We will have performance objectives that you will have to meet. These deadlines start from the effective date of the contract (the day the last signature is placed and the contract is delivered) and are generally as follows:

- **Place escrow deposit:** usually 3 days from effective date. The escrow deposit is generally 1% of the contract price
- **Make loan application:** usually 5 days
- **Conduct any and all inspections (inspection period):** usually 10 days
- **Cancel if not happy with inspections:** same 10 days as inspection period
- **Get final loan approval from your lender (loan commitment period):** usually 30 days (may be 35 days for FHA or VA loans). This date is very important, we will monitor this date closely.
- **Order survey:** usually done after loan is approved...but at least 5 days prior to closing
- **Closing date:** As determined at time of offer...can change...especially if it's a short sale transaction

□ Inspections are a major part of buying a home. While we (us and you) can look and see the basic condition of a home, it will take a certified, professional building inspector to inspect the home from top to bottom to determine the true condition of the home. We ALWAYS recommend a building inspection. If inspections turn up problems, you generally have the option to walk away and get your deposit back, ask for concessions, or move forward with the contract (depending on how the contract was written of course). Inspection costs are generally:

- General Building Inspection: \$300 - \$350 for an average sized home (2500sqft and less). Just like Lenders, we have Inspectors we can recommend also.
- WDO (Wood Destroying Organism) Inspection: \$100 - \$125 for an average sized home. This inspection is also known as a Termite Inspection

If the Building or termite inspections turn up anything of further concern, you may choose to have additional inspections done such as:

- Mold Inspection: \$250 - \$400
- Radon Gas Inspection: \$250 - \$300
- A/C Technician / Electrical Technician / Plumbing Technician: costs vary
- Structural Engineer: costs vary

□ After we get through the inspection period, the next major deadline is the loan commitment. Lenders will often issue a “conditional loan approval” early in the loan process. This is not formal loan commitment. We will be looking for final approval, with NO conditions...also known as “clear to close.” The loan approval process can be tedious, the lender will ask for a myriad of paperwork from you. After you turn it in, they may ask you again for the same paperwork. We know that sounds crazy but it happens all the time! We just advise you to take it in stride and give them what they ask for...as fast as you can possibly get it to them. Remember, the goal is to get the home...this is just a step in that direction. The loan process generally goes like this:

- you send the lender your initial paperwork
- the lender processes that paperwork, orders the appraisal
- the lender may ask for more documentation, you provide it
- the paperwork goes to underwriting for a decision
- underwriters ask for clarification on a few items; you may get your conditional approval at this point
- you send in the additional paperwork/clarification
- there may be another “ask” from underwriting or you may get a final approval at this point
- once approved, the loan goes to quality control for review, if approved, it goes to the closing department (you are done with the loan at this point!)
- the closing department sends the loan closing package to the title company for preparation of the closing documents that you will sign on closing day

□ Now that the loan is “cleared to close,” we will go over the HUD with you to make sure you understand it. The HUD has all the figures on it and shows you how much to bring to closing (you will get an estimate at the beginning of the process from your lender). On the day of closing, or the day before, we will do a final walkthrough of the house to make sure the house is in good shape and that everything is out of the house.

□ On closing day, make sure you bring two forms of identification, at least one of which has a picture on it (like a drivers license).

Keep in mind that often there are things that pop up in a typical transaction that can derail the process. We pride ourselves on preventing those and when issues do arise, we are experts at navigating around them. If there’s one thing we’ve learned since first becoming licensed in 1994, it’s that no two transactions are identical. Fortunately, we have a wealth of experience to see YOU through the process!

# WHY USE AN AGENT TO PURCHASE NEW CONSTRUCTION?

- Knowledge of the market
- Help in finding the perfect home
- Experience in new home sales
- Guidance
- Past sales information
- Re-sale expertise and value; identify the items that you need to watch for

The builder has a professional representative watching out for his needs; you need the same expert representation.

Buying a new home is a little more difficult and time-consuming than buying resale. We can professionally guide you through this process.

It is very important that your interests be professionally represented when you are entering into a contract for a builder's inventory or to-be-built home.

The builder has already factored in a broker co-op fee into the price of the home. Many buyers have the misconception that if you do not have an agent representing you, you will be credited the commission. The buyer does NOT receive a credit...rather that amount goes directly to the builder's profit margin.

**\*\*\* Keep in mind, the builder requires that your agent accompany you on your first visit to the builder's sales office, or they may NOT allow you to be represented by your real estate professional. \*\*\***

# BEFORE WE BEGIN... LOAN PRE-APPROVAL

In this market, an approval letter must accompany an offer for property from a credible lender.

Getting approved for a loan in advance will help you in the following ways:

HOW MUCH HOME CAN YOU AFFORD?

DOWN PAYMENT REQUIREMENTS?

CLOSING COSTS?

QUALIFYING FOR THE MORTGAGE?

1. Generally, interest rates are locked in for a set period of time. You will know in advance exactly what your payments will be on offers you choose to make.
2. You won't waste time considering homes you cannot afford.
3. A seller may choose to make concessions if they know that your financing is secured. You are like a cash buyer, and this may make your offer more competitive.
4. You can select the best loan package without being under pressure.



There are three key factors to consider:

1. The down payment
2. Your ability to qualify for a mortgage
3. The closing costs associated with your transaction
4. Your personal comfort level, a difference between “can” afford and “prudent” decision

Most loans today require a down payment of between 3% and 10.0% depending on the type and terms of the loan. If you are able to come up with a 20-25% down payment, you may be eligible to take advantage of some special fast-track programs.

You will be required to pay fees for loan processing and other closing costs. These fees must be paid in full at the final settlement, unless you are able to include them in your financing. Typically, total-closing costs will range between 2-5% of your mortgage loan.

Most lenders require that your monthly payment range between 25-28% of your gross monthly income. Your mortgage payment to the lender includes the following items:

- The principal on the loan (P)
- The interest on the loan (I)
- Property taxes (T)
- The homeowner's insurance (I).

Your total monthly PITI and all debts (from installments to revolving charge accounts) should range between 33-38% of your gross monthly income. These key factors determine your ability to secure a home loan: Credit Report, Assets, Income, and Property Value.

## VIEWING PROPERTIES

One of the most exciting aspects of buying a home is looking at different properties in your price range and seeing houses in all sizes, conditions and styles. It's the best real estate education of all.

### HOW MANY TO SEE?

How many homes should you plan to view before you make a decision? That's up to you, and will depend on the neighborhood, the market, and your specific requirements. With all the homes on the market at any given time, the key is to focus your efforts on suitable properties. Your realtor will help by eliminating homes that don't meet your criteria - and tracking down those that do.

### WHAT TO EXPECT?

Your realtor is happy to show you any house that's on the market. Once you're ready to view a property, here's what you can expect:

BEFORE : Schedule all visits in advance with your realtor. It is customary to give the seller 1-hour notice but some require 24 hours notice. Plan to spend between 15- 30 minutes seeing each property. Allow for travel time.

DURING: Pay attention to home's curb appeal, floor plan and overall amenities.

Take notes, ask questions and make comments that help your realtor understand your needs and what you like and don't like about the home.

Be considerate of the owners, who may or may not be present during the tour.

Wear shoes that slip off easily as many sellers ask potential buyers to remove shoes before viewing.

# MAKING AN OFFER

Once you have found the home you wish to purchase, you will need to determine what offer you are willing to make for the home. It is important to remember that the more competition there is for the home, the higher the offer should be sometimes even exceeding the asking price. Remember, Be Realistic. Make offers you want the other party to sign!

To communicate your interest in purchasing a home, we will present the listing agent with a written offer. When the seller accepts an offer it becomes a legal contract. When you write an offer you should be prepared to pay an earnest money deposit. This is to guarantee that your intention is to purchase the property.

After we present your offer to the listing agent it will either be accepted, rejected, or the seller will make a counter offer. This is when we will negotiate terms of the contract if necessary.

The step-by-step contract procedure for most single-family home purchases is standard. The purchase agreement used is a standard document approved by our local Board of Realtors.

The purchase agreement or contract constitutes your offer to buy and, once accepted by the seller, becomes a valid, legal contract. For this reason, it is important to understand what is written on the contract offer.

# HOME INSPECTION

If you are purchasing a resale property, we highly recommend that you have a professional home inspector conduct a thorough inspection. The inspection will include the following:

- Appliances
- Plumbing
- Electrical
- Air Conditioning and Heating
- Ventilation
- Roof and Attic
- Foundation
- General Structure

The inspection is not designed to criticize every minor problem or defect in the home. It is intended to report on major damage or serious problems that require repair. Should serious problems be indicated, the inspector will recommend that a structural engineer or some other professional inspect it as well.

Your home cannot "pass or fail" an inspection, and your inspector will not tell you whether he/she thinks the home is worth the money you are offering. The inspector's job is to make you aware of repairs that are recommended or necessary.

The seller may be willing to negotiate completion of repairs or a credit for completion of repairs, or you may decide that the home will take too much work and money. A professional inspection will help you make a clear-headed decision. In addition to the overall inspection, you may wish to have separate tests conducted for termites or the presence of radon gas.

In choosing a home inspector, consider one that has been certified as a qualified and experienced member by a trade association. We can provide you with a list of names.

We recommend being present at the inspection. This is to your advantage. You will be able to clearly understand the inspection report, and know exactly which areas need attention. Plus, you can get answers to many questions, tips for maintenance, and a lot of general information that will help you once you move into your new home. Most important, you will see the home through the eyes of an objective third party.

## RADON TESTING

Radon is a radioactive gas that comes from the natural decay of uranium in soil, rock and water and gets into the air you breathe. It typically moves up through the ground to the air above and into your home through cracks and other holes in the foundation. Your home traps radon inside, where it can build up. Any home may have a radon problem - this means new or old, well sealed or drafty home, and homes with or without basements. The amount of radon in the air is measured in "picocuries per liter of air," or pCi/L.

You cannot see, smell or taste radon, but it is estimated to cause thousands of deaths each year. The Surgeon General has warned that radon is the second leading cause of lung cancer in the United States today. In fact, only smoking causes more lung cancer deaths. If you smoke and your home has high radon levels, your risk of lung cancer is especially high.

Nearly one out of every 15 homes in the U.S. is estimated to have an elevated radon level. EPA recommends that you take action to reduce your home's indoor radon levels if a radon test result is 4.0 pCi/L or higher. A radon test is usually as simple as placing charcoal canisters in the lowest level of a home and leaving them there for 48 hours. The canisters are then sent to a laboratory for analysis.

At the buyer's discretion and expense, the purchase offer can be made contingent upon a having the property inspected for the presence of radon by a testing firm listed with the National Radon Safety Board (NRSB) or the National Environmental Health Association (NEHA) using an Environment Protection Agency (EPA) approved testing method. The cost of testing ranges between \$100 - \$150. If elevated radon levels are detected, the cost of a radon mitigation system is negotiated between the buyer and seller. The typical cost for a radon mitigation system ranges between \$750 - \$1,200.

For more information, the publication, Home Buyer's and Seller's Guide to Radon, can be viewed at <http://www.epa.gov/iaa/radon/pubs/hmbvauid.html> and is available in .pdf format.

## BEHIND THE SCENES WHAT HAPPENS NEXT?

Now that you have decided to buy your home, what happens between now and the time you legally own the home? A Title Company may handle the following items. NOTE: in different parts of the country attorneys, lenders, escrow companies and other persons who are independent of, title companies perform some or all of these functions.

Earnest Money - An agreement to convey starts the process once it is received at the Title Company. Once you submit the loan application, it is usually subject to a credit check, an appraisal, and sometimes, a survey of the property.

Tax Check - What taxes are owed on the property? The Title Company contacts the various assessor-collectors.

Title Search - Copies of documents are gathered from various public records: deeds, deeds of trust, various assessments and matters of probate, heir ship, divorce, and bankruptcy are addressed.

Examination - Verification of the legal owner and debts owed.

Document Preparation - Appropriate forms are prepared for conveyance and settlement.

Settlement - An Escrow Officer oversees the closing of the transaction: seller signs the deed, you sign a new mortgage, the old loan is paid off and the new loan is established. Seller, Realtors, attorneys, surveyors, Title Company, and other service providers for the parties are paid. Title insurance policies will then be issued to you and your lender.

Title Insurance - There are three types of title insurance:

- Lender's - Coverage that protects the lender for the amount of the mortgage
- Owner's - Coverage that protects your equity in the property.
- Enhanced - Coverage above and beyond Owner's.

Both you and your lender will want the security offered by title insurance. Why?

Title agents search public records to determine who has owned any piece of property, but these records may not reflect irregularities that are almost impossible to find. Here are some examples: an unauthorized seller forges the deed to the property; an unknown, but rightful heir to the property shows up after the sale to claim ownership; conflicts arise over a will from a deceased owner; or a land survey showing the boundaries of your property is incorrect.

For a one-time charge at closing, title insurance will safeguard you against problems including those even an exhaustive search will not reveal.

# REAL ESTATE CLOSING

## WHAT IS A REAL ESTATE "CLOSING"?

A "closing" is where you and I meet with some or all of the following individuals: the Seller, the Seller's agent, a representative from the lending institution and a representative from the title company, in order to transfer the property title to you. The purchase agreement or contract you signed describes the property, states the purchase price and terms, sets forth the method of payment, and usually names the date and place where the closing or actual transfer of the property title and keys will occur.

If financing the property, your lender will require you to sign a document, usually a promissory note, as evidence that you are personally responsible for repaying the loan. You will also sign a mortgage or deed of trust on the property as security to the lender for the loan. The mortgage or deed of trust gives the lender the right to sell the property if you fail to make the payments. Before you exchange these papers, the property may be surveyed, appraised, or inspected, and the ownership of title will be checked in county and court records.

At closing, you will be required to pay all fees and closing costs in the form of "guaranteed funds" such as a Cashier's Check. Your agent or escrow officer will notify you of the exact amount at closing.

## WHAT IS AN ESCROW ACCOUNT?

An escrow account is a neutral depository held by your lender for funds that will be used to pay expenses incurred by the property, such as taxes, assessments, property insurance, or mortgage insurance premiums which fall due in the future. You will pay one-twelfth of the annual amount of these bills each month with your regular mortgage payment. When the bills fall due the lender pays them from the special account. At closing, it may be necessary to pay enough into the account to cover these amounts for several months so that funds will be available to pay the bills as they fall due.

## NEW HOME WARRANTIES —

When you purchase a newly built home, the builder usually offers some sort of full or limited warranty on things such as the quality of design, materials, and workmanship. These warranties are usually for a period of one-year from the purchase of the home.



## HOME WARRANTY PROTECTION

At closing, the builder will assign to you the manufacturer's warranties that were provided to the builder for materials, appliances, fixtures, etc. For example, if your dishwasher were to become faulty within one year from the purchase of your newly built home, you would call the manufacturer of the dishwasher - not the builder.

If the homebuilder does not offer a warranty, BE SURE TO ASK WHY!

### RESALE HOME WARRANTIES —

When you purchase a resale home, you can purchase warranties that will protect you against most ordinary flaws and breakdowns for at least the first year of occupancy. The warranty may be offered by either the Seller, as part of the overall package, or by the Realtor. Even with a warranty, you should have the home carefully inspected before you purchase it.

A home warranty program will give you peace of mind, knowing that the major covered components in your home will be repaired if necessary. Ask us for more details about home warranty packages.

# GLOSSARY

**AMORTIZED LOAN:** A loan, which is paid in equal installments during its term.

**ACCEPTANCE:** The date when both parties, seller and buyer, have agreed to and completed signing and/or initialing the contract.

**ADJUSTABLE RATE MORTGAGE:** A mortgage that permits the lender to adjust the mortgage's interest rate periodically on the basis of changes in a specified index. Interest rates may move up or down, as market conditions change.

**A.P.R. (ANNUAL PERCENTAGE RATE):** A term used in the Truth in Lending Act. It represents the relationship of the total finance charge (interest, discount points, origination fees, loan broker, commission, etc.) to the amount of the loan.

**APPRAISAL:** An estimate of real estate value, usually issued to standards of FHA, VA, and FHMA. Recent comparable sales in the neighborhood is the most important factor in determining value. This should be contrasted against the home inspection.

**APPRECIATION:** An increase in the value of a property due to changes in market conditions or other causes. The opposite of depreciation.

**ASSUMABLE MORTGAGE:** Purchaser takes ownership to real estate encumbered by an existing mortgage and assumes responsibility as the guarantor for the unpaid balance of the mortgage

**BILL OF SALE:** Document used to transfer title (ownership) of PERSONAL Property.

**CLOUD ON TITLE:** Any condition that affects the clear title to real property.

**CONTRACT:** An agreement to do or not to do a certain thing.

**EASEMENT:** The right to use the land of another.

**CLOSING STATEMENT (HUD1):** A financial statement rendered to the buyer and seller at the time of transfer of ownership, giving an account of all funds received or expended.

**COMPARABLE SALES:** Sales that have similar characteristics as the subject property and are used for analysis in the appraisal process.

**CONSIDERATION:** Anything of value to induce another to enter into a contract, i.e., money, services, a promise.

**DEED:** Written instrument, which when properly executed and delivered, conveys title to real property.

**DISCOUNT POINTS:** A loan fee charged by a lender of FHA, VA or conventional loans to increase the yield on the investment. One point = 1 % of the loan amount

**ENCUMBRANCE:** Anything that burdens (limits) the fee title to property, such as a lien, easement, or restriction of any kind

**EQUITY:** The value of real estate over and above the liens against it. It is obtained by subtracting the total liens from the value.

**ESCROW PAYMENT:** That portion of a mortgagor's monthly payment held in trust by the lender to pay for taxes, hazard insurance, mortgage insurance, lease payments and other items as they become due.

**FANNIE MAE:** Nickname for Federal National Mortgage Corporation (FNMA), a tax-paying corporation created by congress to support the secondary mortgages insured by FHA or guaranteed by VA, as well as conventional home mortgages.

**FEDERAL HOUSING ADMINISTRATION (FHA):** An agency of the US Department of Housing and Urban Development (HUD). Its main

activity is the insuring of residential mortgage loans made by private lenders. The FHA sets standards for construction and underwriting but does not lend money or plan or construct housing.

**FHA INSURED MORTGAGE:** A mortgage under which the Federal Housing Administration insures loans made, according to its regulations

**FIXED RATE MORTGAGE:** A loan that fixes the interest rate at a prescribed rate for the duration of the loan.

**FORECLOSURE:** Procedure whereby property pledged as security for a debt is sold to pay the debt in the event of default.

**FREDDIE MAC:** Nickname for Federal Home Loan Mortgage Corporation (FHLMC), a federally controlled and operated corporation to support the secondary mortgage market. It purchases and sells residential conventional home mortgages.

**GRADUATED PAYMENT MORTGAGE:** Any loan where the borrower pays a portion of the interest due each month during the first few years of the loan. The payment increases gradually during the first few years to the amount necessary to fully amortize the loan during its life.

**INVESTOR:** The holder of a mortgage or the permanent lender for whom the mortgage banker services the loan. Any person or institution that invests in mortgages.

**LEASE PURCHASE AGREEMENT:** Buyer makes a deposit for future purchases of a property with the right to lease the property for the interim.

**LIEN:** An additional loan imposed on a property with a first mortgage. Generally, a higher interest rate and shorter term than a "first" mortgage

**LOAN TO VALUE RATION (LTV):** The ratio of the mortgage loan principal (amount borrowed) to the property's appraised value (selling price). Example - on a \$100,000 home, with a mortgage loan principal of \$80,000 the loan to value ratio is 80%.

**MORTGAGE:** A legal document that pledges a property to the lender as security for payment of a debt.

**MORTGAGE INSURANCE PREMIUM (MIP):** The amount paid by a mortgagor for mortgage insurance. This insurance protects the investor from possible loss in the event of a borrower's default on a loan.

**MORTGAGOR:** The borrower of money or the giver of the mortgage document.

**NOTE:** A written promise to pay a certain amount of money.

**ORIGINATION FEE:** A fee paid to the mortgagee for paying the mortgage before it becomes due. Also known as prepayment fee or reinvestment fee.

**PRIVATE MORTGAGE INSURANCE (PMI):** See Mortgage Insurance Premium.

**PROMISSORY NOTE:** A written contract containing a promise to pay a definite amount of money at a definite future time.

**REALTOR:** A member of local and state real estate boards, which are

affiliated with the National Association of Realtors (NAR)

**RENT WITH OPTION:** A contract, which gives one the right to lease property at a certain sum with the option to purchase at a future date.

**SEVERALTY OWNERSHIP:** Ownership by one person only. Sole ownership.

**SURVEY:** The process by which a parcel of land is measured and its area ascertained.

**TENANCY IN COMMON:** Ownership by two or more persons who hold an undivided interest without right of survivorship. (In event of the death of one owner, his/her share will pass to his/her heirs.)

**TITLE INSURANCE:** An insurance policy which protects the insured (purchaser or lender against loss arising from defects in the title).

# NOTES