

The Home Buying Process Explained

Now that you have decided to buy your first *or* next home (or any Real Estate), there are some things you should keep in mind to make the process go smoothly. Please ask any questions you may have.

1. Pre-Qualification and Good Faith Estimate (GFE)

It is in *your* best interest to be financially pre-qualified by a *reputable lender* **BEFORE** getting too involved in searching for a house. Many sellers will not respond to an offer without some form of documentation showing a buyer's ability to make a sale happen so finding a house you like before knowing you can get a loan can lead to frustration. The house you really like may be sold to someone more prepared to make an offer.

Getting pre-qualified will give everyone a higher level of *confidence* in a sale going to settlement/closing. It also helps establish a positive atmosphere from the start which can lead to a successful negotiation. In addition, a "Good Faith Estimate" (the break-down showing estimates of your closing costs and your monthly mortgage payment) will help you *determine the best price range for you* to search and feel comfortable spending.

The Agreement of Sale *requires* that a buyer make a formal, written, mortgage application within a specified period of time *after* contract execution. This is not a time for surprises.

2. Credit Check(s)

The lender will run an "in-file" credit report to determine their *ability* to provide mortgage financing as well as to determine the possible *amount* of financing. The process is governed by strict federal regulations. If there are any errors in your report, you should resolve them *before* looking for a home. A "good" credit report will carry a **great deal of weight** with a seller during negotiations. If there are any problems, you will be advised on how to contact the Credit Bureau for corrections. Credit scores can be improved with the help of a professional. However, that could take time so please plan ahead.

A buyer should **NOT** do *anything* that could adversely affect their credit rating while negotiating a purchase as **an updated credit report will be run close to the settlement date.**

3. The Search

Once I understand what you are looking for (this will likely *evolve* so do NOT get frustrated!), including your preferred "price range", locations and features, *we* can focus on *identifying* properties for you to consider looking at. My job is to help you *focus* on what is *most* important to you (*needs* vs. *wants*) and to explain how the MLS/ online "search" processes works. The "search" is as much about *finding* the best home for your needs as it is about eliminating those that will **not** meet them but could waste your time by distracting you from the goal. There are two *key* words: focus and strategy.

I will search the Multiple Listing Service (MLS) for homes which *appear* to meet *your* needs and wants. This includes my setting up an *automated* search for you: **newly listed, price-reduced** and **back-on-the-market** listings will be emailed to you regularly. All you have to do is check your email. Many buyers will set up their own auto-searches on Internet sites and that is fine. *Please* keep in mind that the MLS operates in "**real time**" (as good as the Internet is, much of the information is *stale*) and that my search results are only as good as what you tell me so *please* be sure that I am searching for what you want and let me know as your plans change so that we are using the same criteria.

I encourage my clients to drive by houses they like first so that they can decide if they like the neighborhood. Doing that will allow us to focus on visiting houses that are more likely to meet their needs. Then, I recommend visiting **no more than 4-6 houses at a time** as looking at more than that tends to be counterproductive as they start to *blend together*. We should *evaluate* each home to see what you like and what you don't like *before* selecting more homes to see (this is where your search criteria may evolve). Please keep in mind that other buyers are receiving the same information as you so you may risk losing a home you might really like by waiting to call me to or by reacting slowly when you find one you really like. Similarly, finding one you like BUT not being "pre-qualified" could be a problem, especially if you have competition.

4. Earnest Money Deposit ("Good Faith" Money)

When you decide to make a formal (written) offer on a property, I will write your *terms and conditions* into an "Agreement of Sale" (they may change through negotiation but, *if* a seller accepts your initial offer, you are *obligated* to honor what your offer). Buyers typically include an "Earnest Money" deposit check made payable to the listing agency (most offers are scanned and emailed so those deposits are held by the buyer's agent *until* the offer is fully signed/ executed). Once submitted to the listing agency, the deposit money will be placed into an "escrow account" and held there until settlement. Depending on the negotiations, the amount of the deposit made with the initial offer, the type of market and the price of the house, *additional* deposits may be **required** (typically, it makes sense to get past the property inspections *before* offering any additional deposit money).

Any deposit monies provided within 30 days of settlement **must** be certified funds. If an agreement falls through due to no fault of yours (please refer to the actual contract), all deposits will be *refunded* if there is no **dispute** over them. However, a *default* by a buyer *could* result in a dispute and loss of deposit money. State laws strictly govern the disposition of these deposits. More details about deposits will be contained in the agreement of sale.

5. Interest Rates, Lock-ins, Discount Points

Interest rates and discount points (these are used to "*buy-down*" the interest rate) can *vary* from day to day. NEITHER THE LENDER NOR THE REAL ESTATE AGENT HAS ANY CONTROL OVER THESE VARIANCES. Many lenders and loan programs will allow a lock-in on a loan for 45-60 days (75 days or longer may be available with some lenders). If you don't close by the lock expiration date, your costs will likely increase. Each "point" is equivalent to 1% of the loan amount and it correlates with a specific *reduction* in the interest rate (such as "one-eighth" of a percent). Be aware of the conditions that affect your loan.

You should be sure to "*lock in*" or **set** your interest rate no later than 14 days *prior* to settlement.

It is very important that a buyer not do *anything* that could delay processing of their mortgage, such as *not* making a timely, formal written mortgage application as required in the agreement of sale, *not* paying for the application/ credit report/ appraisal when requested by the lender or *delaying* the lock-in of their interest rate. A buyer could be in "default" and could lose their deposit money EVEN if they are denied a mortgage if they did not adhere to the time frames in the purchase agreement.

6. Estimate of Closing Costs

Your mortgage loan officer will give you an *estimate* of the funds **required** to close/ settle on a home in your desired price range, usually in the form of a "Good Faith Estimate" (GFE). *Typical* Closing Costs are **5-6% of the Sales Price** as a rough *estimate*. The *actual* number depends on items such as

the amount of the annual taxes, the type of loan (*including* mortgage insurance) and the number of “points” involved, if any. The cost may be *reduced* if the seller agrees to provide an "assist" towards your *allowable* closing costs. This is part of the negotiating process and is more common in some markets/ locations than in others. A “**seller assist**” is when you ask the seller to *essentially refund part* of the purchase price back to you at the settlement table to be applied towards your closing costs. It is ***not*** a rebate or cash that you can walk away with as it **MUST** be used to offset some of your *allowable* closing costs, as permitted by the lender. The *amount* permitted depends on the *type* of loan and *amount* of money you are putting down against the house. For example, the maximum for an FHA mortgage is 6% of the sale price.

Keep in mind, that the "assist" is a **REAL** cost to the seller (it reduces their proceeds), it allows you to buy a house you might not otherwise have the money to buy AND that some sellers do not accept providing an assist as a cost/ marketing expense of selling their house.

7. Estimate of Monthly Payments

Included in the “Good Faith Estimate” is a calculation of your monthly payments based on the principal loan amount, the interest rate, the annual property taxes and the cost of property insurance (PITI payment). Depending on the amount of your “down payment” (how much of the purchase price you are paying) and the type of financing used, there may also be a monthly **MIP/ PMI** (mortgage insurance) *added* to this. To ensure you are able to take advantage of a current rate you like, take action! Rates will change and are unpredictable. Don’t lose your dream home due to procrastination. When interest rates are around 5%, the *monthly cost/ price* of a mortgage is **\$5.50 per thousand dollars** borrowed (compare this to much higher interest rates!). Taxes and insurances are added to that figure to come up with your monthly payment.

8. Loan Processing

You will need to provide your CREDIT CARD and LOAN balances to your loan officer at the time of loan application. Verifications of required information will be mailed to the appropriate people. The Lender will require that the credit report and application fees be paid at the time of application (these costs are non-refundable). Please also bring your last two months bank statements for all accounts as well as your last two full month's pay stubs. The time from loan application to closing usually takes 4-8 weeks, depending on a variety of factors, so please plan accordingly. Delays may occur for *any* number of reasons. It is **IMPERATIVE** to respond **IMMEDIATELY** to lender requests for information to avoid delays in getting approved. Delays could impact the date of settlement.

It is *extremely important* that you do not open *any* new credit accounts, buy a car with a loan, take a cash advance or write a check from your credit card or any type of financial investment or loan during the time you are looking for a home or waiting for a loan approval. Do not change or quit jobs. Speak to your loan officer *before* doing anything involving bank accounts, credit accounts or loans.

9. Home Inspections

A home inspector will look at a home according to a detailed checklist. Many *minor* items will typically appear on their report. **Do not be alarmed.** You will have an opportunity to discuss these items with the home inspector to determine which, if any, you may want to ask the seller to correct. We will concentrate on problems that meet the requirements of a “*material defect*”. Remember, the seller has the *option* to decline correcting deficiencies not expressly agreed to in the contract.

Ideally, the house was priced properly/ realistically according to location, features and *condition* and there will be few surprises. Your offer *should* reflect "what you saw" as much as it relates to your financial ability. Your Agreement of Sale defines other types of inspections (such as radon and wood infestation/ termite) and your options. Together we will review these definitions and options in order for you to make *informed* decisions. A typical home inspection takes about 2 hours and is a *major* factor in determining *whether* a sale will proceed or not.

10. Home Owner's Insurance

If you are using lender financing you **MUST** provide *proof* of insurance at the settlement table or pay for it before settlement concludes. You will need to talk to an insurance agent to determine needed coverage for your new home as soon as possible. Be sure your insurance agent knows the lender's requirements.

11. Title Search and Survey

The Title Company will order a title search to ensure that the seller is able to provide you with "clear title" to the property and land. If there are *any* title problems (liens, encumbrances, etc.), we will keep you informed of the seller's efforts to resolve them.

12. Walk-through

We will conduct one or more *final* walk-through inspections of the property (current regulations suggest two to avoid closing issues). I suggest doing the final one *immediately before* settlement to avoid any surprises. Items subject to the final inspection are heating and cooling equipment, electrical and plumbing systems, appliances included in the sale, plus any other items/ repairs specifically agreed to or arising from the contract. Everything must be in working order.

13. Certified Funds Needed

A day or so before closing, the lender will let you know the amount of money you need to bring to closing. **REMEMBER, IT MUST BE CERTIFIED FUNDS** obtained from your bank or credit union and made out to the Title Company. Some title companies may require that you "wire" funds. BE CAREFUL: wire fraud is a major problem so make sure you know whom to trust! When in doubt, call the title clerk. Wiring mistakes tend to be *irreversible*!

14. Closing/ Settlement

This is the **final step** in buying your new/ next home. At the Title Company, or my office, you will sign the papers necessary to *transfer* title of the property to you. You will also be required to sign forms provided by the lender to consummate the loan. I will be there to *represent* your best interests. You must bring a current driver's license or photo ID with you to settlement.

15. Use Me to Communicate with Seller

If you have any questions or concerns (such as wanting to look at a house again), contact me. I will handle communications to prevent any misunderstandings between you and the seller.

16. Utilities

Prior to settlement, you will need to have all utilities *transferred* into your name. If the utilities are

already "on", it will be YOUR responsibility to call the appropriate offices and give them the necessary information to set up an account in your name. Do not wait until the last minute to do this or the utilities may be turned off! If any have been turned off, some localities require an inspection before the utilities can be turned back on. You may then be required to pay a fee for this inspection. These fees vary from location to location and it may take a few days for the inspection to be made.

17. Buyer's Remorse

It is not unusual for buyers to question their decision after they have signed an agreement of sale. This is normal. The evolving process will give you several opportunities to make sure that you made a wise choice. *Remember* that much **planning, thought** and **determination** went into your decision: take a deep breath and trust yourself. If you have followed the plan I have used time and time again, you can **trust the process** and know that you have done an **exhaustive search**, *eliminated* houses that did NOT meet your needs, *determined* which houses "seemed" to match your wishes and, ultimately, **made an informed decision and made a purchase offer for the best one!** If you have skipped any steps or felt compelled to make a rushed decision you may easily get distracted by new houses that come on the market. The grass is not always greener! In most cases any doubts will pass and I will be happy to get you any information that you need at any time to help you feel more confident in your decision.

18. Our Business Relationship Agreement

While we are in the process of searching for your home, it is *extremely* important that I be aware of and involved in every home you see. While you may be *tempted* to visit an open house *or* a new construction sample home *or* contact another agent without involving me, **there are rules** in our industry which could cause the seller to not pay my fee if you visit *any* home without me (*especially* new construction!). In that case, you would have to pay me out of your pocket at closing and that is **NOT** my goal. Please make sure that people know I am your agent.

In order to avoid any potential problems, it is important that you allow me to be the **contact** for *every* home that you see. In addition, you should **not** call another office *or* email any agent regarding a sign that you see *or* a listing you find on the Internet. If you do find something online, please read the posting carefully as many advertised houses are *not for sale* or have some other aspect that will make them unsuitable for your needs. As your agent, I am your advocate and my job is to **protect and promote your interests above all else!** You can trust in my commitment to you *and* I need to trust in *your* commitment to me. This is mainly to be sure that buying a home does not cost you more than we planned.

Finding and purchasing your new/ next home should be *very* exciting but it can also be an *emotional* process. Allowing me to handle your questions, concerns and any inherent stress will enable you to enjoy this giant step in achieving your own American Dream.

I look forward to representing your best interests in making your dream a reality.

HIRE WISELY: There is no time for inexperience, empty promises or false expectations!

We are not all the same!