

Steps to Home Ownership

Step 1 - Decide to Buy

If you're not going to live in a location for 3 or more years, it usually doesn't make any sense to buy. You're better off renting. On the other hand, if you're going to be there for more than 3 years, you usually come out far ahead. Next you need to be sure that you can afford a house that will meet your requirements. Remember, your mortgage payment should not be more than 1/3 of your monthly income.

It's a good idea to consult with a mortgage broker or banker before you get started. They will tell you exactly what you can afford to purchase. This keeps you from wasting your time looking at houses that are too expensive.

Before you start your search for a home, decide what features are most important to you. How many bedrooms and baths do you need? Do you need a home office? Is being on a conservation, corner lot, or pond important? Do you prefer a 3-car garage? Maybe you prefer wood or tile floors over carpet or a split bedroom plan where the Master is away from the secondary bedrooms.

These are things to think about before starting your search. If you tell us exactly what you're looking for ahead of time, we can search for the perfect home for you.

Step 2 - Seek Professional Guidance

While it's possible to find your home, make an offer, sign a contract, get financing, handle the inspections, deal with the problems, and close the purchase all by yourself, most people find it far easier to use a professional's expertise. It's been said, "If you think it's expensive hiring an expert, try hiring an amateur." This holds doubly true in home buying, because you, as a buyer, will almost never have to pay the real estate agent's fee. The seller pays for the agent's fee.

Since it doesn't cost you anything to have the assistance of a professional and it will greatly reduce your risk, you should interview several agents and pick one who has the right experience to assist you. Just like any group of people, some agents are more experienced than others.

Step 3 - Begin Looking for Just the Right Home

Today, most people start looking for a house on the internet first. If you're reading this report, you're probably one of them. This is ok, but it can be extremely confusing. Web sites don't always tell the whole story. It's really important to have an agent who has local knowledge and experience. It's possible to locate a house on a web site owned by a real estate company that doesn't do business in the town where the house sits.

We can also make it easier for you to screen the available houses in the area you

want. It's easy for us to set up a computer report that will automatically email houses that match your requirements to you. Our past buyers have found that this is very helpful. They no longer have to screen through hundreds of houses on poorly organized websites and their knowledge of their target market area is greatly enhanced.

Step 4 - Know the Market

Our knowledge of the local market is very helpful in your search. We make every effort to ensure that you know as much about the homes for sale in your target market area as possible. This helps you to understand what constitutes value and what doesn't. We'll provide all of the recent sales history for the neighborhood in which you're interested and this helps you negotiate more effectively.

Step 5 - Find Your Dream Home

When we find exactly the right house for you, we'll put together an offer custom-tailored for your needs. The offer will include appropriate contingencies on important things such as obtaining financing, favorable home inspection, clear title, and so on. We've helped over 1000 families purchase and we know where the pitfalls lie. We're happy to assist you in avoiding them.

The contract offer is normally accompanied with a cash deposit called "earnest or good faith money." Our title company usually holds this deposit in an escrow account until you close on the sale. Then the amount is applied to your closing costs. If the seller signs the offer, you will then have a contract for sale and purchase. Closings in our area are usually held within 30 days from the effective contract date. This is mainly dependent on the time it takes your lender to approve your mortgage.

Step 6 – Negotiating your Purchase

As your buyer's agent, we will provide you with a list of comparable properties to help determine the best price and terms to offer for the property.

We will jointly consider items in the house that you want to convey with the sale. For example, refrigerator, range, window treatments, ornate chandeliers and light fixtures, and outdoor sheds, and spas.

We usually make offers contingent on a satisfactory home inspection. It would be in your best interest to hire a professional home inspector to evaluate the home and advise you of any defects or potential negative aspects of the home.

Examples of additional contingencies are: inspections, financing, the sale of a house, satisfactory appraisal, reviewing the covenants and deed restrictions of the community or condo docs, etc.

Determine the date you would like to close. Keep in mind that the nearer the

closing date is to the end of the month, the less interest you will have to pay at the time of closing. This can sometimes greatly reduce the amount of your closing costs.

A standard sale and purchase contract allows you to specify how long the seller may take to respond to your offer. Unless the contract is signed by the seller and delivered to the buyer by the date and time you specify, the offer will expire and your escrow deposit can then be refunded. This prevents the seller from keeping you in suspense while waiting for a better offer.

In most cases, you will be expected to provide a deposit or earnest money payment with the offer. An earnest money deposit could range from \$500 to several thousand dollars. You should always get a signed receipt. We'll make sure that you will get the money back if the sale is not completed because of problems with the seller or because of contingencies that we place in the contract. If you decide to back out of the contract at the last minute, you may have to forfeit your deposit to the seller.

Once you have completed the contract, it is presented to the seller. If the seller accepts everything and signs the contract, the offer becomes binding for both the buyer and seller (subject to the contingencies). If the seller wishes to negotiate, a counteroffer may be made. You then receive the revised contract and can either sign it, if acceptable, or reject it and make a second offer. We sometimes find that negotiations go through several rounds of offer and counter-offer. Don't let this discourage you. We've done this many, many times and we will discuss the counter offer and help you decide whether to accept it, submit a counter to their counter offer, or reject the seller's counter offer and move on to another house. You can depend on us to provide you with advice based on our experience in hundreds of contract negotiations.

Market conditions will play a role in how we negotiate the contract. We're familiar with all of the winning strategies for all market conditions and you'll find that we will provide you with our best guidance and advice. However, the actual steps we take will be your decision. We give you the benefit of our advice and then we follow your informed instructions.

Step 7 – Inspections and Appraisal

The standard sale and purchase contract allows ten days from the effective date for the home inspection to be completed. This time frame may be changed depending upon the buyer and seller.

You should employ the services of a Professional Licensed Home Inspector to identify any hidden or possible future problems with the home. The cost of a home inspection normally runs around \$300-\$400 for a typical home (homes with larger square footage, pools, spas, etc. may cost more) and this has to be paid to the inspector at the time of service.

A home inspection for a conventional loan is optional to the buyer but inspections may be mandatory for FHA and VA loans and may follow guidelines set by the local government. We recommend that you have a home inspection, since it could save you thousands of dollars and help to avoid problems in the future.

A detailed home inspection usually takes two to three hours or longer, depending on the home's age and square footage. We recommend that you be present at your home inspection so that you can ask your inspector any questions and to look at any areas needing maintenance or repair.

The inspector's job is to give an in-depth and impartial evaluation of the home's systems as they appear at the time of the inspection. The inspector should also be fully trained in the proper operation of all commonly found home systems. You can expect the inspector to evaluate the physical condition including the structure, construction and mechanical systems, identify items that should be repaired or replaced, and estimate the remaining useful life of the major systems (such as electrical, plumbing, heating, air conditioning), equipment, structure and finishes.

Items commonly inspected during a home inspection are foundations, floors and walls, siding, paint, windows, decks, garage doors, roofing coverings, flashings, chimneys, piping, plumbing fixtures, faucets, water heating and fuel storage systems, electrical wiring, main service panels, conductors, switches, receptacles, heating equipment, safety controls, distribution systems, chimneys, air conditioning and heat pumps, cooling and air-handling equipment, controls and ducts, interior walls, ceilings, floors, railings, doors and windows, insulation and ventilation, attics, walls, floors, foundations, kitchen and bathrooms, pools and pool equipment, and many other items.

Once completed, the inspector should provide you with a detailed home inspection report. You can expect to receive this report with two days.

The Termite Inspection is a separate inspection. This is another expense to the buyer usually costing anywhere from \$50 to \$250. This is usually included in your final closing costs and paid at the time of closing.

If you are financing a home, the lender will usually require a termite inspection. This assures the lender that the home is free of termites and other wood destroying insects.

If a home is infested with wood destroying organisms, it could compromise the integrity of the structure. The pest inspector will look for infestation by wood-boring insects such as termites and carpenter ants, as well as evidence of dry rot and other fungal conditions.

If the pest report mentions damage from an active or previous infestation, the lender may ask the buyer to hire someone to verify the structural integrity of the home.

An Appraisal is an un-biased estimate of the value of a property. The purpose of the appraisal is to determine the market value of the home. This ensures that you are not purchasing the home for more than it is actually worth. The outcome of the appraisal determines the maximum amount a lender will loan to purchase that particular property. The buyer pays for the appraisal up front but the lender must order the appraisal.

An appraiser arrives at a final opinion of value by evaluating the property and the neighborhood in which it is located. The appraiser also obtains land values from county sources and recent sales information about nearby properties. They prepare a written report outlining methods by which the fair-market value was estimated. Usually, the buyer's lender will receive the final report within 3-5 days.

Step 8 – Shopping for a Loan

Unless you are paying cash for your purchase, you will have to arrange for a mortgage loan. We cannot do this for you, but we can assist by providing you with contacts with lenders and then by working closely with the lender you select.

Before your search for that perfect home begins, you must determine how much you can afford. There are several factors that determine how much home you can afford.

Your income is a major factor in determining how much you can afford. For conventional loans, the lender typically allows 28% of your monthly income for your complete mortgage payment including principle, interest, taxes and insurance (PITI).

The better your credit score, the better the interest rate you can get. Lower interest rates allow you to buy more home for the same monthly payment.

A larger down payment may help you buy a larger home. You may qualify for a home loan with a lower down payment if your credit is good.

Monthly expenses such as your car payment, minimum credit card payments, student loans, personal loans, child support payments and any other monthly obligations will reduce the loan amount for which you qualify.

By going to the county tax appraiser's website, you can estimate what your taxes would be for a particular home you may be interested in purchasing.

Due to recent hurricanes in the past few years, homeowners insurance in certain areas has skyrocketed. Since homeowners insurance is part of the escrow payment on your loan, you must factor this into your total monthly mortgage payment.

Your new home may be located in a community with a mandatory homeowner's association and you may be required to pay monthly association dues. This fee will

become part of your carrying cost for your new home.

Shopping around for a home loan will help you get the best terms. A loan is a product and terms for the loan may be negotiable. While shopping for a loan, you should always compare the costs involved.

There are different types of lending institutions: commercial banks, mortgage companies, and credit unions. A buyer has the option of dealing directly with the above type lenders or with a mortgage broker who will check with many different lending institutions to find the best loan for you.

Here are some things to keep in mind while shopping:

Is the interest rate fixed or adjustable?

Are there any points involved? These are fees paid to the lender or the broker for the loan and are often linked to the interest rate; usually the more points you pay, the lower the rate.

Ask what additional fees are involved. Some examples include: Loan origination fees, underwriting fees, broker fees, application fee, and appraisal fee. There may be others depending on the lending institution or mortgage brokerage.

Compare what the required down payment is per individual lender.

A lender may require you to pay Private Mortgage Insurance (PMI). Not all lenders require this so be sure to ask. PMI protects the lender against a loss if a borrower defaults on the loan. It is usually required for loans where the down payment is less than 20% of the sales price or when the amount financed is greater than 80% of the appraised value.

How long does the loan last – 15, 20, 30 or more years? When comparing programs offered by the different lending institutions, pay close attention to the term of the loan and make sure you are comparing the same terms.

Does the loan have a pre-payment penalty? If so, how much is it and how long does the penalty period last?

Once you are satisfied with the loan terms, you may want to obtain a written lock-in from the mortgage broker or lender. The lock-in should include that rate, the period the lock-in lasts, and the number of points to be paid. By locking in you are protected from any rate increases while you are looking for a home, while you are negotiating and while the loan is being processed and you are waiting to close.

Step 9 – Home Insurance Shopping

The main purpose of homeowners insurance is to provide financial protection against disasters to your home and other structures like a shed or detached garage. Homeowners insurance covers both damage to your property and your

legal responsibility for any injuries and property damage to others while on your property. When purchasing a home, the lender always requires the buyer to obtain and show proof of homeowners insurance before finalizing the loan.

The homeowner's insurance policy includes four different types of coverage:

1. **Structure of the home:** Pays to repair or rebuild your home if damaged or destroyed by fire, lightning, wind storm, hail, explosions, vandalism, vehicles, smoke and other disasters listed in the policy. Basic homeowner insurance policies do not cover against flood, earthquake, and sinkhole damage. One may consider adding these endorsements to their policy. Although, if the home you decide to purchase is located in a flood zone, the lender will require you to add flood insurance to your policy.
2. **Personal Belongings:** Electronics, furniture, clothes, jewelry, and any other personal items are covered if they are stolen or destroyed by insured disasters.
3. **Liability:** Covers you against lawsuits for bodily injury or property damage to others while on your property.
4. **Additional Living Expenses:** Pays the additional cost of living away from the home if repairs or replacement is needed. It typically covers hotel bills, restaurant expenses, and other living expenses while the home is being repaired or rebuilt.

The insurance companies use one of two ways for determining reimbursement to a homeowner for their losses.

1. **Replacement Cost:** Cost of replacing damaged property with no deduction for depreciation.
2. **Actual Cash Value:** Cost of replacing damaged property minus depreciation.

Keep in mind, before a homeowner is reimbursed for any claim they must pay their deductible first.

Step 10 – Close the Contract and Move In!

Before heading to the closing table, you'll want to do a final walk through the property you'll be purchasing. The final walk through is to confirm that the property is in the same condition as when you previously viewed it, all items are in working order, and all necessary repairs have been completed.

To keep the mystery out of the actual closing process, here is an explanation of what will happen and what you'll need on closing day.

Closing is when the real estate deed is transferred from the seller to the buyer. It's also when the buyer signs all mortgage documents, makes the remaining down payment, and settles all closing costs. Any form of payment to the title company on the day of closing must be by certified funds. Cash or personal checks are not

usually accepted.

It takes about an hour for you to read and sign all necessary documents. The closing is held at a title company usually selected by the seller.

You will need a valid form of photo identification such as a driver's license. You'll also need any and all funds needed to close in the form of a certified check.

You and your agent, the seller and their agent, a representative of the title company, and sometimes a representative of the lender will all attend closing.

You will carefully review and sign all mortgage paperwork and title documents, give a certified check to the title company representative for your down payment and your share of the closing costs.

You will receive a Good Faith Estimate of closing costs from your selected lender at the time the loan application is submitted. This estimate is based on the loan officer's past experience and may not include all the closing costs. We will review your Good Faith Estimate and answer your questions about it.

We will go over the closing statement HUD-1 form provided by the closing agency for accuracy and to make sure you are not being charged too much. We will make sure you bring your down payment to the closing and we will be present while you sign all of the required documents.

Once the documents are signed, you've turned over your down payment to the title company officer, and been handed the keys, you own your new home!

We don't disappear at that point. Instead, we're available to you as a resource for as long as you need us. We often find that our buyers call us with questions years after their closing. Of course, if you need to sell your house in the future, we're pleased to consult with you about your requirements.

We can provide you with a wealth of community information that will ease your transition into your new neighborhood. We can tell you about places to purchase decorator items, home repair items, lawn care items and also about service providers such as carpet cleaners, handy men, lawn companies, pool services and so on.

It's our goal to have you be so satisfied with our service that you don't hesitate to recommend us to other people you may know or meet who need to buy or sell real estate!