The TotalPath

To Home Buying

www.totalmortgage.com

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We understand that purchasing a home can be a daunting undertaking, even for experienced home buyers. That's why we put together the TotalPath to Home Buying™. Our comprehensive guide will walk you through every step of the process, from the search process right through your closing. Whether you're a first time home buyer or simply need a refresher, arm yourself with all the knowledge that you need to achieve the dream of homeownership. Start on your path today.

1 Deciding to Rent or Buy

An initial question to ponder when considering whether to buy a home is: Which makes the most sense: buying or renting? We all know the argument: rent is wasted money, while buying helps you build equity. But it's actually far more complicated a decision than that expression implies. Let's consider circumstances in which renting is the wiser choice.

Can you afford the costs of homeownership? Monthly payments include more than just principal and interest—they also include property taxes, property insurance and perhaps even mortgage insurance. Outside of the mortgage payment you will have down payment costs, closing costs, utilities that are often more expensive, maintenance, and perhaps homeowner's association dues. Are you prepared for these upfront and ongoing costs? If not, then renting may be your best option.

You might also consider renting in the following situations:

- You are relocating to a new area and are not sure exactly where you want to live. Renting first, for a period of time may give you the chance to get a feel for the "lay of the land" and help you decide where you want to live long term.
- You are in the midst of a major life change: a new job, marriage, divorce or baby. These situations often come with emotional and financial pressure and it may be advisable to rent until life is a little more settled.
- You are in a volatile real estate market. Sometimes when the economy is strong, home prices rise quickly in what is known as a "seller's market." It is easy to pay more than you should in this type of market. Likewise if the real estate market is particularly weak, you may be able to buy a home at a good price, yet you may find it difficult to resell your house if the "buyer's market" continues.

When you are ready to compare the actual costs of buying versus renting remember that your goal is to determine which option results in the lower net cost over the period you expect to be in the house.

2 Understanding Homeownership's Advantages

Homeownership affords many advantages including pride, security, and possibly wealth. Other advantages include:

- ***Tax breaks***- Often you can deduct all or part of the mortgage interest, real estate taxes paid, costs associated when you buy the home (such as points paid to lower interest rate), and possibly other costs from your Federal and State income taxes. Use of your home as an office can also present the opportunity for tax deductions. Please consult an accountant or CPA for specific tax advice for your situation.

- ***Equity***- equity is the amount of a home's value that belongs to the homeowner. To compute your equity you subtract any liens (interest in the home) such as mortgages, home equity loans, taxes owed or vendors owed. The remaining amount is the homeowner's equity. You grow your equity in two ways. First by reducing the principal balance of your mortgage and second by the market appreciation in the value of your home.

- ***Privacy***- your home is your sanctuary and you may live your life there, within legal bounds, generally as you see fit.

- ***Remodeling***- Whether it is landscaping, cosmetic changes or physical modifications, home-ownership enables you to "make it your own." While some changes may require town or city approval, or approval by a homeowner's association, you will have far more flexibility to alter a property you own, relative to a property you rent.

Buying a home has major advantages. However, homeownership also comes with serious financial requirements.

Main Advantages of Home Ownership

- Tax Breaks
- Equity
- Privacy
- Remodeling

3 Understanding Homeownership's Financial Requirements

If you're buying a home in cash, much of this will not apply to you. However, most people do not have enough cash on hand to purchase a house outright and will need to take out a mortgage loan. Simply put, a mortgage loan is a loan that is secured by real property (in this case, your interest in your house serves as collateral for the loan). Mortgages are addressed at greater length later in the guide.

Upfront Costs- Down Payment

The down payment is a percentage of the selling price. A typical down payment is 20% of the sales price, though higher down payment may be required in certain circumstances. Also, special financing programs like FHA loans can offer much lower down payments in the range of 3.5% to 5%.

For purchases requiring a mortgage in which less than a 20% down payment is made, mortgage insurance will be required. The cost of mortgage insurance is added to your monthly mortgage payment. Making a down payment of less than 20% may also result in a higher interest rate on your mortgage.

Saving for a down payment is one of the first steps a prospective homeowner should take. Often parents or other relatives can help you with the down payment. In these circumstances a lender may require a gift letter certifying that the gift is not a loan that must be paid back.

Upfront Costs- Closing Costs

Beyond the down payment, you also will be required to pay costs called closing costs. These vary somewhat depending on your particular circumstances. Closing Costs fall into two categories: Origination Fees and Title/Settlement Fees.

Origination Fees- can include any of the following: administration fee, application fee, commitment fee, document preparation fee, funding fee, origination fee, points (pre-paid interest), processing fee, tax service fee, underwriting fee and wire service fee. Collectively these fees are sometimes known as "junk fees." These fees will vary by the lender you select.

Title/Settlement Fees- can include any of the following: appraisal fee, attorney or closing fee, credit report fee, flood certification fee, pest inspection fee, courier/mail fee, survey fee, title fees (search and insurance). These fees are typically the same regardless of the lender you select.

Upfront Costs-Prepaid Fees
In addition to down payment and closing costs there are other costs paid at closing which represent prepayment of other charges associated with home buying. "Prepaids" are payments and/or deposits for items such as property insurance premiums, interim interest, real estate taxes, and initial deposits to the escrow account.

Closing costs and prepaid costs associated with home buying can total 2-4% of the purchase price and require additional savings beyond the down payment.

Assurances Required by Lender

- Appraisal-The home must be demonstrated to be worth what you are paying.
- Structural/Mechanical Soundness (Home Inspection)-The home must be in good repair.
- Property Protection (Homeowner's Insurance)-The home must be protected against property damage and other risks.
- Credit Worthiness (Credit Report)-You must be able to demonstrate that you have a history of repaying your debts according to established terms.
- Clear Title-The title to the home must be free from "encumbrances" (liens or claims on the home).

4 Understanding Pre-qualification/Pre-approval

Often the first step to take when considering the purchase of a home is to have a real estate agent pre-qualify you for a loan. This is an estimate based on typical loan requirements. Alternatively, if you are serious about buying a home you may formally apply for a loan and become pre-approved. In order to be pre-approved, you will submit an application, provide income and asset verification documentation (pay-stubs, W2s, 1099s, tax returns, bank and investment statements) and have your credit checked. If pre-approved, the lender will provide you with a letter specifying the loan amount for which you qualify. Pre-approval places a buyer in a much stronger negotiating position. Sellers prefer pre-approved buyers because they are clearly more serious and are far more likely to close if a deal is struck.

How Much Can you Afford?

The general rule of thumb (for which there are many exceptions) is that you can afford to purchase a home that has a mortgage that is two to two-and-a-half times your gross income. However, income is only half the picture that lenders start with to qualify you for a mortgage. The other half is your expenses. This is where the standard ratios of 1) the cost of the loan to your income; and, 2) the cost of your loan plus your other financed obligations (other real estate, autos, boats, RVs, credit cards and installment loans, etc.) comes into play.

The first ratio is known as the "front end" or "payment to income ratio." You can calculate your maximum monthly housing payment by totaling your monthly gross income and multiplying it by .28:

Gross monthly income X .28
(lender front-end ratio)
= Maximum monthly house payment

The second ratio is known as the "back-end" or "debt to income" or "expense" ratio. You can calculate your maximum monthly expense ratio by totaling your monthly gross income and multiplying by .36. Then the total of your monthly mortgage payment and the monthly payments on your other financed debt cannot exceed this amount.

Gross monthly income X .36 (overall debt or back-end ratio) = Maximum monthly debt
– Your current monthly debts
= Amount left for monthly house payment

Getting pre-qualified vs. pre-approved

You might go a step further to ensure you are looking at houses in a range you can afford. The simplest way to get an idea of your price range is to talk with a lender, provide them with income and debt information, and get an estimate of what you can afford. This is like the do-it-yourself method only you talk to a lender, and they may ask questions and require additional information. Getting pre-qualified doesn't require a lot of time or money (and is often free). That's the advantage. The disadvantage is that you are not formally approved.

Checking your credit score

Having your "credit checked" or having your "credit pulled" is a crucial part of the mortgage loan approval process. Lenders use the total of your debts, the amount of credit available to you and your history of paying your debts according to the terms provided, as a major factor in approving or declining a loan. This will set the interest rate and determine if mortgage insurance will be required. If you have used credit wisely and paid your bills in a timely manner then you should not have an issue qualifying for a loan. However, if you have a history of high debt levels and late payments or debts that have been "charged off" by your creditors or you have judgments for outstanding debts, qualifying for a mortgage will be far more difficult and costly.

You are entitled to review your credit report for free annually from each of the three major credit reporting agencies. You can contact Experian, TransUnion, or Equifax individually or you can visit ***www.annualcreditreport.com*** and request reports from all three firms simultaneously.

Housing Facts

- There are approximately 130 million housing units in the United States*.

- How old is your home? Over 9 million U.S. homes were built prior to 1920.

*All housing facts are drawn from the 2009 Census Bureau American Housing Survey and the 2011 National Association of Realtors Profile of Home Buyers and Sellers

5 Understanding Real Estate Agents

Now that you're ready to buy the question that must be answered is this: should you move forward on your own or use an agent?

As a buyer, you don't gain anything by not using an agent, because, typically, the seller pays the agent a commission. A percentage of the commission (the amount depends on local custom) goes to the "listing agent" (the agent who makes the availability of the house known on the seller's behalf), and the remaining commission goes to the buyer's agent (the agent that represents you, the buyer). Typical total commissions range from 5 to 7 percent.

In the past, real estate law and local custom dictated that agents always worked for the seller. Now that's not usually the case. Instead, you sign a contract specifying a buyer's agency or representation. Remember you control the way in which an agent works for you.

Real Estate Agents can assist with the following:

- An agent can help you determine how much you can afford when purchasing a home. They can recommend lenders and work with lenders on your behalf to pre-qualify you for a loan.
- Agents have access to the Multiple Listing Service (MLS) that lists homes for sale. While you can also find houses on your own by attending open houses, reading your paper's real estate section, and searching online, your agent is the best point of access for all homes and can arrange showings for houses of interest.
- Your agent can help you narrow your search by going through a home with you and noting what you like and dislike. The agent is also a source of information about the home itself: how long it's been on the market, the neighborhood and school system, the home's best features, and so on. Rather than being flooded with properties of all types, your agent can help you find matches for your specific needs and wants.

> "As a buyer, you don't gain anything by not using an agent, because, typically, the seller pays the agent a commission."

- Your agent can also answer questions about the current market, interest rates, and other home buying issues. She can also refer you to other specialists whom you will need, including a home inspector or a lender.

- Your agent will negotiate on your behalf when you make an offer on a house. The agent can help you determine exactly what you offer, not only in price but also in other factors, such as appliances, seller's help on closing costs and other negotiation issues). The agent will write up the offer and present it to the seller's agent.

- Your agent will lead you through the process, ensuring all necessary steps are completed, such as securing a loan, getting an inspection, completing a title search, and so on.

6 Hiring a Real Estate Agent

Don't just go with the first agent you meet or to whom you are referred. Instead, ask family, friends, and co-workers about agents they have worked with and evaluate several candidates.

- Prepare a list of questions and interview your agent. Remember he or she is helping you with big financial and life decisions. Ask how many homes the agent has listed in the past six months. Ask how many homes the agent has sold. Get references and call them to inquire about that buyer's impressions of the home-buying process with that agent.

- Consider an agent that specializes or at least sells and lists a lot of homes in your neighborhoods of interest.

Housing Facts

- Did you know that only 2.5% of housing units have more than ten rooms?

- On a scale of 1-to-10, with 10 being the best, 3-in-4 homeowners rated their neighborhood an 8 or higher.

- Be sure that you are working with a buyer's agent who is representing you.

- If you are first selling then buying a home, using the same agent may save you some money as the agent may be willing to reduce the selling commission.

- Sign a Buyer's Agency Agreement which stipulates the terms of your representation, such as possible exclusivity with the agent and the agent's duties to you. The Agreement should clearly stipulate the grounds for, and means of, termination.

7 What Type of House to Buy?

Lifestyle considerations and personal preferences typically dictate the type of home to purchase. Do you enjoy renovation and "do-it-yourself" projects? Or are you the type that likes everything new and perfect?

The existing home

Older homes might have charm, established lawns and neighborhoods, but they may also come with condition issues that may be a headache and financial burden.

Since 1978, all newly constructed or remodeled homes must be free of lead hazards, so if you are buying a home older than this, make sure that this risk is evaluated. Be sure to have inspections done, because older homes have many surprises that may be hidden to untrained eyes.

New Construction

New homes have the advantage of having no wear and tear. However, they have the disadvantage of often being further from town or city centers and often lack the "established feel" that comes with older trees, landscaping and retail and cultural amenities. Of course in-fill development within cities or towns may offer the best of both--established but new.

Location is everything

There is a common expression that states the first rule of real estate is: location. The second rule of real estate is: location. And finally, that the third rule of real estate is: location. The fact is that the location of the home you choose will impact everything else: your satisfaction and the home's current and future value. Many people choose their homes based upon things like commuting and school districts.

Consider resale before you buy

It is always wise to consider the potential ease of resale and the potential value of a resale. Despite our intentions, life has a funny way of throwing us curveballs. While we intend to live in a certain location for a long time or "forever" it doesn't always work out that way. Consequently, it is wise to consider how desirable the home you choose might be for other buyers.

> The fact is that the location of the home you choose will impact everything else: your satisfaction and the homes current and future value.

8 Choosing a Neighborhood

For many people the neighborhood or community in which they live is as important, or more important, than the particular house they choose. Proximity to amenities like shopping, schools, parks, walking trails, public transportation, healthcare facilities, etc., have a direct impact on quality of life and overall convenience of a home. You need to evaluate whether your new neighborhood meets some common-sense, quality-of-life standards that many people expect when they buy a home.

- Drive through a neighborhood or community at different times of the day or evening. During early morning hours, you'll be able to observe how efficiently residents get to work and students get to school. During the daytime, you'll also see how properties are maintained. An evening or night visit will allow you to discover rush-hour traffic density and traffic noise, street parking availability and how well streets are lit to ensure safety.

- Walk or ride your bicycle through the neighborhood to get a closer look at public places such as schools, playgrounds, and parks.

- Talk to local shop and business owners. They may offer a different perspective about the area than homeowners and could give you some insight into plans for commercial development.

- Depending on whether you enjoy

nightlife or if you're an early bird, check your future neighborhood for opening and closing times of coffee shops, restaurants and essential amenity providers, (e.g. supermarkets and drugstores.) Run every-day errands to learn how close to each other service providers in the area are located. Is parking convenient?

- Review the websites of local school boards, town or city councils to discover pressing issues impacting the area and to learn about local ordinances that might affect your ability to use or enjoy your home. Also, subscribe or review online local newspapers.

- Visit local police or economic development websites for information on crime rates and other community information.

- Check out local utility providers and rates. Some locations may have public or private providers and some may even give you a choice.

Evaluating a neighborhood and its schools is an important aspect of your for search a home, especially if you have children. Here are the key things to look for:

- Make an appointment to tour the local school and meet the principal.

- Research school test scores, student-teacher ratios, average class size, and special-education classes on community websites.

- Speak with local parents to learn firsthand about the school's strengths and weaknesses.

- Ask about transportation options and before- and after-school programs.

School Checklist

- Meet the Principal
- Research School Stats
- Speak with other Parents
- Ask about Transportation & After School Programs

9 The Search Process

There are many ways to find your dream home. You may stumble upon it at an open house, while surfing the internet, or through your friendly neighborhood real estate agent. In addition to these popular ways of landing a home, there are some less-obvious methods, such as buying foreclosed properties or attending auctions.

On the Web

More than 80 percent of home buyers begin their home search on the Internet, according to The National Association of Realtors. That's because looking for a home online offers huge benefits: you can do it from the comfort of your home, and it is a great way to narrow down and preselect the properties you'll want to check out in person. Best of all, thanks to today's sleek technology, web real estate sites allow you to view photos of a home's interior and exterior, while 360-degree virtual tours and videos bring your prospective dream home to life on you monitor.

Real estate agents

Nearly 90 percent of homes are sold through real estate agents. For a list of available properties, real estate agents often consult the Multiple Listing Service (MLS), which is a registry of available homes in a specific area compiled by member brokers. However, some home sellers prefer to keep a low profile and choose not to publicize their properties in the MLS. An expert agent can give you the edge over other house hunters. Many agents receive early alerts before a property goes on sale, so keep in close touch with an agent who knows which homes are hitting the market!

Newspapers and magazines

Newspapers still command a large share of real estate advertising. They feature a listing of the largest number and the latest properties that you can view on open house days, along with viewing schedules and addresses. Often, you can also find the papers' printed real estate information online. ***HomeFinder.com***, for instance, carries home listings of more than 130 newspapers! For those who prefer to start out with a more traditional home hunting option, home magazines offer a photographic shopping tour for available homes with published prices in a specific geographical area. Keep in mind, though, that printed home listings become outdated quickly, and some homes might already be under contract.

Estate and probate attorneys

What if you're eyeing a home that appears unoccupied, but you don't know the circumstances of its current ownership? It may be a house whose owner has moved into a nursing home or has died. The home may be in the process of being liquidated through what's called a probate court, or through the execution of a will. So, if you feel adventurous, contact an attorney who specializes in estate planning or probate proceedings. Attorneys are an excellent source for finding those special homes before they hit the market.

Driving through neighborhoods

Strolling or driving through a neighborhood you've always liked is a great way to discover new homes on the market on your own. You can also chat with local residents who might know a home that's about to go on sale. I've even known diligent home buyers who knocked on the door of a home they've had their eye on and asked its owner if he would like to sell it.

Friends, family and business associates

Word-of-mouth is a common way some homes are sold outside the real estate community. These sales are called "private sales," and typically don't involve real estate agents. If you have your heart set on that one special condo building near the lake, or a certain street or school district, where you have seen few or no available homes, you may need to network with those that live in your desired area to get the inside scoop when a property does become available.

Auction and foreclosure specialist

Some for-sale properties are usually not advertised through easily accessible channels, such as a Web site or MLS. They are houses that have gone into foreclosure and will be put up for auction and are brokered through specialized businesses

Housing Facts

- The median lot size for American homes is a quarter acre (not including condos or co-ops).
- Only 18,000 American homes use solar energy as their main heating sources.

that work only with these kind of distressed properties. Go online to research lenders, mortgage banks or brokers, or real-estate auction specialists who work exclusively with properties in foreclosure in the area of your choice.

Open Houses

There are only so many home photos and descriptions that you can view online. Eventually, you'll want to go out to see some properties in person. Open houses are a fun way to check out a variety of homes, while getting an up-close look at neighborhoods. When you go to an open house, pick up the property-information sheet and take notes on what you like and dislike. After seeing several homes, those notes will help you remember specific property details. And don't be afraid to take pictures, but ask the hosting real estate agent first if it's okay.

It's standard procedure at an open house to sign in with some basic contact information. However, if you wish not to be contacted by the agent, be sure to indicate that next to your name. Also, if you have an agent who sends you to open houses unaccompanied, then you should tell this to the open house host and add your agent's name next to yours on the sign-in sheet.

Some agents like to hover over you as you tour a house or speak to you about all its features and benefits. However, if you prefer to be left alone, tell the agent that you would like to take your time and look around at your leisure. It's perfectly fine to open closets and cabinets, but respect the owner's personal property.

Ask the right questions

Feel free to inquire about local schools or the community, but don't ask about the profile of the neighborhood's residents or if the area is safe. These types of questions are discriminatory, and if an agent responds to them in earnest, he or she could be violating The Fair Housing Act. If you need crime statistics, look them up online or visit the local police station.

If you're looking at condominiums, ask the host agent if there are any proposed special assessments for capital improvements, such as a new roof. Don't forget to inquire about the association's "reserve fund," which is rainy-day money for unexpected repairs and maintenance. Another good question is whether the building or association allows condo owners to rent units. If so, what is the percentage allowed to be leased? If you're a pet lover, verify that the building you're interested in allows cats and dogs, and if there are limits on the number of pets and their weight.

When viewing single-family homes, be sure to ask about recent improvements, such as insulation, new plumbing, or other upgrades that you can't see. If the home has a basement, look for water seepage or flooding, which often evident at the bottom of basement walls. Ask if there is a Residential Real Property Disclosure that you can see. Most states require home sellers to disclose in writing any known material defects, such as cracked foundation walls or leaky roofs. Is the roof old? Look for curled shingles. If the roof looks good, ask the agent how old it is. Don't overlook the age of the windows — if you end up replacing them, it will cost you plenty.

Keep in mind that the majority of home sellers and their agents try to put the best face on their property for an open house. While fresh flowers, home-baked cookies, and fresh paint and decor can say "wow!" be sure to look past the staging and focus on the home's mechanical and structural systems.

10 Consider Short Sales, Foreclosures and Auctions

Homeowners or developers sometimes find themselves financially overextended and need to liquidate their property quickly. Although some auction, foreclosures, and short-sale homes are bargains, weeding through the inventory to find one that is acceptable to you and your mortgage lender can be daunting. These properties are known as "distressed," meaning they might be in rough condition, possibly stripped of their light and plumbing fixtures, wiring, missing appliances, including furnaces and hot-water heaters.

Places to Search

- Online
- Magazines/Papers
- Real Estate Agents
- Estate/Probate Attorneys
- Drive through neighborhoods
- Ask friends/family
- Auctions/Foreclosures
- Open Houses

Beware of spiteful homeowners, who have a grudge against their mortgage lender, who may inflict huge damage to their home before a foreclosure proceeding. Damage can run from punched holes in the drywall to flooded basements.

Short sales are pre-foreclosure home sales. To control losses, sometimes a mortgage lender will accept a short sale rather than go through the foreclosure process. A short sale is when a mortgage lender agrees with the homeowner to accept less than the outstanding mortgage loan balance to satisfy a mortgage. The owner vacates the property at the time of signing the short-sale agreement. Typically, short-sale homes are in better condition than foreclosed properties, because the parties have found a solution before a legal foreclosure proceeding begins. As is the case with foreclosure and auction homes, the home is sold in "as is" condition.

> Beware of spiteful homeowners, who have a grudge against their mortgage lender, who may inflict huge damage to their home before a foreclosure proceeding.

Sometimes the buyer will have the right to inspect the property, without the right to ask the lender to fix any defects. "As is" condition means that you will accept the property in its present condition — what you see now and discover later, is what you get.

Foreclosures are homes that have entered litigation initiated by the mortgage lender, who has the right under the mortgage agreement to redeem the property. When you sign a mortgage note, the property is used to collateralize the loan, and the lender has the right to foreclose on the home if mortgage payments aren't met. Homes that have been foreclosed are usually winterized to reduce the risk of damage to the property. The plumbing is drained, the hot water is turned off and the windows are boarded. In some instances, this "as is" condition can limit how much you can inspect the property. If you feel this is an option for you, tour several foreclosed homes to get a firsthand idea this type of investment is all about.

Real estate auctions are also potential bargains. However, these aren't for novice investors who shy from risk-taking. When buying an auctioned home, it's common not to have the right to view, let alone inspect the property, meaning it could be bought sight unseen. Some of these properties are burdened with title and deed problems, such as liens filed against the real estate company by unpaid creditors, such as contractors. If you choose to go this route, deal with reputable residential real estate auction companies. Read the terms and conditions on their Web sites. Internet-based auctions are commonly just a way for sellers and buyers to meet, with the web site assuming no liability for transaction details. The most common auction procedure is for the buyer to bid on the home. If he's successful, both parties draft a real estate contract according to state laws.

11 Understanding the Purchase Process

Making an offer on the home you want can be like asking that girl or boy you had a secret crush on in high school for a date — intimidating. Although there's little risk of making a fool of yourself during the bidding-process, you should play your cards right before you tip your hand. That way you can emerge the lucky buyer who got the most home for his buck.

Once you've decided on the home you want to buy, your real estate agent or attorney will draft a purchase offer or contract in your name, which he or she submits to the seller's agent, attorney or directly to the seller (if the home is for sale by owner). The seller can respond in one of three ways: accept the offer, counter it with a higher asking price, or reject it.

Below-price bidding

Bidding for a property below its asking price is almost par for the course during what's called a "buyer's market." When there's a glut of houses or condos on the market, for which there are not enough buyers, a prospective buyer can confidently try to skim 10 percent off the asking price off the property. But if you bid 20 percent below what a seller wants, you may be out of luck. Many experts advise against subtracting more than 10 percent from the owner's asking price. However, you can sweeten a relatively low offer price by guaranteeing the seller a quick closing and a large earnest-money deposit. Or, if you accept the present state of the home without demanding free upgrades, you could sway the owner in your favor over other bidders.

Highest and best offer

Sometimes sellers or their agents get restless during negotiations and ask you to quote them your highest and best offer for the home. Don't go out on a limb if you are not 100 percent sure you want this particular property. You can always reconsider if you feel you made a mistake, after comparing other properties to the one that forced you to make a blind bet on its value.

Full price offers

There's no shame in agreeing to pay the seller's full asking price without bartering. If the home you're pining for is worth its price tag and you really want it, offer to pay the full asking price. Do you want to see your dream home slip through your hands because you want to pay $1,000 less for it? Another buyer may show up five minutes after you, eager to pay that difference.

Bidding wars

Engaging in a bidding war for a property with other interested buyers is not for the faint of heart. Be warned that you may end up paying too much for that dream home and regretting it. As one of an unknown number of rivals in a bidding war, you're competing against each other blindfolded. Neither you nor your agent will know how many offers the seller has on the table, because real estate license laws allow listing agents to keep such information confidential in the seller's interest.

You may end up having to cough up a lot of extra cash for the down payment, if you're the winner with the highest bid. Instead, you could keep your cool and stay off the multiple offer- and counteroffer-carousel. Sometimes, all rivals for your dream home may throw in their towels and call the bidding war quits. Who knows, the seller may then come knocking at your (old) door to ask you to submit your purchasing offer. In that case, you'll end up the real winner, possibly holding the power to barter with the seller for a lower purchase price. At all stages of the buying process, keep a written record of negotiations between you and the seller, as well as changes to agreements made with any involved parties. In the heat of the home buying process, you may not remember that you wanted the seller to throw in his basement refrigerator, or check on the size and location of your high-rise condo's storage unit.

12 Deciding How Much to Offer

No one wants to pay more than they have to, but comparing home prices is not always black and white. If you're interested in a condominium that is part of a development featuring similar units, it's easy to figure out a price. But if you've picked a vintage Victorian or something one-of-a-kind, your price will probably be more ballpark. When comparing the price of other homes, don't bother with properties that are currently for sale or under contract. Wait until a home's sale closes, so you can get a more accurate comparable value. These "comparable sales" homes, as they are called, are very similar — features, age, square footage and location — to the home you're interested in. Your agent will research sold comparable properties from the last six months to figure out if the home you want is priced correctly.

Adjusting price based on features

Homes in developments or subdivisions are the easiest to compare. If the same 3-bedroom, 2-bathroom ranch model has some recent comparable properties, use these as a baseline. If your ranch has a new kitchen with granite countertops and stainless steel appliances, while the sold comparable home has an older kitchen in need of updating, you need to raise the price of your new home — or lower it, if your home lacks what a comparable home has. Your agent can help walk you through this process.

Comparisons get hairy when you're buying a one-of-a-kind home that can't be compared to anything else in the neighborhood: a Contemporary in a sea of Colonials, a new construction among 100-year-old homes, the only three-flat building in a neighborhood of bungalows, or the only 1-bedroom condo in a building of 3-bedroom units.

Comparing sales prices is a good way for you to understand home values in a neighborhood. They should be guidelines and not absolutes. Sometimes a very motivated seller will dump a home below market value to be rid of it, conversely, a popular property may get multiple offers that drive its price over the list price. Your protection against overpaying for a home is to include a clause in the purchase contract stating that the home must appraise for at least the contract price.

Making an Offer

Drafting a solid offer, or purchase contract, is like successfully cooking a new recipe. As a buyer, you want to pay the lowest possible amount for your new home, have flexible terms for items such as earnest-money deposits, mortgage commitments and closing dates. However, your offer must be acceptable to the home seller as well. Many first time buyers forget that a contract should persuade the seller to negotiate and then reach an agreement that everyone is happy with.

There are many parts to an offer, and all of them are negotiable. Remember to choose your battles carefully. You may be flexible with some items, and firmer on others. When you first begin your home search, ask your attorney or real estate agent for a blank copy of the contract. Take the time to familiarize yourself with its provisions. This way, when it comes time to draft it, you'll feel comfortable and will know how to address the various options in it.

Most contracts have standard (or boilerplate) language, in addition to blanks where you can fill in the exact terms and negotiating points of your offer. If you don't want to fill in parts of the contract, you can simply cross them out and they will be excluded. Use an approved contract from your state's real estate attorney association or local Board of Realtors. You may wish to hire an attorney to review your contract before you submit it.

Here are common points and terms of a real estate contract (offer to purchase):

Real estate contract— A binding agreement between a buyer and a seller. It consists of an offer and an acceptance, as well as consideration of money to make the contract legally binding.

Acceptance— An agreement of the contract terms by the buyer and seller.

Contract length— Forty-five days from contract to closing is a good rule of thumb, but inquire about typical contract lengths in your area.

Mortgage commitment— A document from a mortgage lender that commits to provision of a loan at agreed terms and conditions.

Mortgage term, rate and amount— Specification of the type of mortgage that you require.

Cash offers—An offer made without contingency to obtain a mortgage. In lieu of mortgage financing, cash offers should be confirmed with a letter from your financial institution stating that money is on deposit to close the contract.

Lead-based hazard— A written disclosure by the home seller describing lead-based hazards in a property. Buildings built after 1978 do not present these hazards. Federal law requires lead-based paint disclosures.

Real property disclosures— Written statements by the seller that discloses any known defects.

Local disclosures— Local requirements of disclosure, including certificates of occupancy, that the seller gives to the buyer.

W-9 Form— An IRS form requesting taxpayer identification and the certification number of the buyer.

Appraisal— The value of a property set by a licensed or certified appraiser.

Earnest-money deposit— The money you give the seller at the time the offer is made as a sign of good faith. Earnest-money deposits vary. The contract should provide for a refund of the entire earnest money deposit within an agreed period.

Attorney approval period— Your attorney reviews and makes changes to the contract, typically within five to seven business days.

Property inspection period— Under the contract, the buyer has the right to conduct an inspection on the condition of the property within five to seven business days after signing.

Well and septic inspections— These are independent of structural and mechanical inspections.

Contingency— A provision in the contract requiring certain acts to be completed before the contract is binding. Timelines for contingencies run concurrently.

Closing/escrow date— The last day of the transaction process, when the deed is delivered, documents are signed, and funds are dispersed.

Possession date— The date when the buyer can move into the property, as agreed in the contract.

Final walk-through— Before the closing or escrow date, you can do a final check of the property's condition, agreed-on repairs (based on the inspection) and personal property (such as appliances) to be left in the home.

Tax prorations— A credit given to a buyer at closing for unpaid property taxes, when taxes are paid in arrears. Prorations should always be more than 100 percent.

Personal property— List and initial all personal property included with the sale, such as air conditioners, appliances and playground equipment. Personal property should be conveyed to the buyer through a bill of sale.

Home-sale contingency— This states that the contract is contingent on the sale of the buyer's existing property.

Home-closing contingency— This states that the contract is contingent only on the buyer selling his existing property.

13 Dealing with Seller Objections

There are three outcomes when a purchase contract is drafted by the buyer and presented to the seller:

- The seller will accept the terms as initially presented and agree to the contract.
- The seller will counteroffer by modifying some or all of the terms.
- The seller will reject the terms and start over or walk away.

The counteroffer is the most common scenario in a contract. Both buyer and seller should develop a strategy for negotiating, before the contract is formally presented.

Housing Facts

- Have you changed the batteries in your smoke detector lately? Nearly 20% of homes haven't had their batteries changed in the last six months.
- 18% of U.S. homes are located within 300 feet of a body of water.

Dealing with stalemates

Counteroffers are like volleyball. Each time you serve a counteroffer back to the seller, you'll gain a better idea of where they stand with price and terms. If a seller doesn't budge much from his list price, it's a sign that he's digging in there.

Sometimes negotiations arrive at an impasse. Remember to stick with your original plan as to price and terms. Do not let emotions or pushy sellers or agents alter your game plan.

Inking the contract

Don't be rushed through negotiations. Contract acceptance can take a matter of hours, and at worst, weeks. If either side delays their response to a counteroffer for more than a day, it's a red flag, so give reasonable response deadlines to all your counteroffers.

When you and the seller accept the terms through the counteroffer process, it's known as acceptance. Most states require all contracts and offers of price and other terms to be in writing. Each counteroffer should be presented in writing to the seller or their agent. Do not allow any offer to be made verbally by either party.

14 Understanding Earnest Money

In an ideal world, if you found the home of your dreams, you and the owner could sign a purchase contract, followed by a handshake and, later, your down payment. In the real world, in order to prove your offer to purchase a property is "earnest," or "in good faith," you need to put money on the table as soon as the ink of your signature dries on the purchase contract.

This earnest-money deposit is a fraction of the down payment, which indicates the buyer's intent and willingness to execute the agreements, laid out in the contract with the seller. The buyer usually pays it in the form of a personal or certified check, typically issued to the real estate brokerage of the seller. The deposit will be held in an escrow account, a type of trust fund, until closing. It's important to know that this earnest-money deposit is not an extra cost of buying a home. It will be credited towards the down payment at closing,

State real-estate laws strictly regulate how real estate brokers conduct and manage these separate, professional escrow accounts. Brokers are not allowed to deposit any earnest monies in their own business bank accounts. Nevertheless, make sure to request a receipt for any earnest money handed over to a real estate agent or a brokerage. It should come in the form of a copy of the check on the brokerage's letterhead, along with a signature of the person accepting the check's delivery, and the date and location the check was received

Earnest payment amounts vary widely. How much should you put down? The answer varies according to local custom and the relative seriousness to purchase the buyer hopes to convey with their offer. A good rule of thumb is 2-5% of the purchase price.

What if things go wrong?

Although most purchase contracts stipulate that a seller can keep the earnest-money deposit if a buyer fails to complete the purchase of a home, the seller and the buyer can negotiate a different solution on how to distribute the earnest-money deposit between them.

If a serious dispute arises over who's to blame for the failure of the contract, your real estate agent can help you sort it out. If all else fails, be prepared to write the money off as a penalty for having caused the seller some hardship.

15 Understanding Contract Withdrawals

Sometimes the unexpected can happen to a prospective home buyer, and they decide they cannot go through with the purchase of a home. What matters is that if you have to cancel a home purchase, announce your decision as soon as possible, in order to avoid losing money and causing the seller unnecessary hardship.

The most common reason home buyers withdraw from their purchase contract is because they can't secure a mortgage commitment under the terms defined in the contract. There are many other reasons buyers or sellers decide they do not want to go through with a transaction. The reason for the cancellation of a purchase contract isn't the key issue, the process for handling it is far more important.

The reason for the cancellation of a purchase contract isn't the key issue, the process for handling it is far more important.

Put it in writing

It's relatively easy to withdraw your offer if the home's seller has not yet signed the purchasing contract. As long as you don't have written acceptance of the contract by the seller, you are still considered to be in the negotiating stage of the home-buying process. If you change your mind at this stage, have your real estate agent or attorney draft a letter to the seller's representative, stating that you are withdrawing your offer. And because you should never deliver any earnest money deposit to the seller or his agent until all parties have signed the purchase contract, there should be no earnest money deposit to recoup.

Withdrawing from a purchase contract after the seller has formally accepted the contract in writing is far more difficult. If the date of your decision falls within what's called the contingency period, during which, for example, an attorney reviews the purchasing contract, or your mortgage is being worked out and confirmed, the cancellation requires a formal, written procedure.

In this case, your attorney or agent must draft a letter called a purchase contract cancellation agreement. This letter will contain a passage stating that all signatories to the contract agree to cancel any and all agreements made in the contract and the contract is thereby declared null and void. The letter also stipulates that any earnest money should promptly be refunded to the parties who signed the contract. The purchase contract cancellation agreement must also include obvious information, such as the address of the property, the date the contracts were accepted, the names of buyers, etc. Subsequently, the buyers and sellers who signed the original contract must sign the purchase contract cancellation.

Defaulting on the contract

The situation is worse for a buyer who changes his mind after he and the seller have signed the purchasing contract, and the agreed-upon time period for inspections, loan approvals or contract reviews has passed. In that case, the former buyer is considered to have defaulted on the contract and stands to lose his or her earnest money deposit. Most residential purchase contracts state that if the buyer defaults, the earnest money goes to the seller as "liquidated damages."

An experienced real estate attorney should be consulted for advice in such a default scenario.

16 Understanding Home Inspections

Once you've found your new home, hire a licensed home inspector to make sure it's in good condition. Most home inspections take place after you've negotiated a purchase contract (an offer), but in some situations, you should consider having the home inspected before you draft a real estate contract. If the home has been vacant, in foreclosure, or has some visible material defects, such as cracked foundation walls, get the property inspected before drafting the contract. What you discover in a pre-contract inspection on a distressed property may change your mind on what you're willing to pay for the home.

All real estate contracts contain a contingency clause allowing the buyer to do a property inspection within five to 10 business days after written acceptance. Do not waive this contingency; inspections from the trained eye of an experienced professional who has likely inspected hundreds of homes are invaluable.

What's inspected?

A home inspection usually takes at least two hours. The inspector will closely look at all the systems and structural elements of your new home. Many buyers believe that they can use deficiencies discovered in a home inspection to renegotiate the purchase price. But unless a major structural defect is discovered, you are limited to asking the seller to repair problems before closing. Communities have varying ordinances and building codes that stipulate how corrections of violations discovered during an inspection are made.

An inspector should:

- Check the home's exterior, including roof, chimney, porch, deck, and soil gradation away from the property.
- Look for structural cracks in foundation walls and floor problems.
- Check water pressure, plumbing for leaks and proper venting of waste lines.
- Test wiring, electrical outlets and circuit breaker switches or fuses, and make sure that the electrical system is adequate for the home's power needs.
- Run all major appliances in the

kitchen and laundry rooms.

- Turn on the furnace and air conditioning and make note of their age.
- Check all cabinets, doors, windows and screens.
- Make sure the fireplace or wood-burning stove is clean and in good working order, and meets local building codes.

The inspector will give you a final report of all structural elements, mechanical systems and rooms, and will list all the defects he discovers, which you should show the home seller when requesting repairs.

What lies beneath?

Keep in mind that the inspector can't check out things they can't see, like the inside of walls or underneath floors. If he thinks that there's a problem inside a wall, such as mold, asbestos or radon, he will add it to the report and suggest that you hire a specialized inspector who is familiar with these problems. Home inspectors are not allowed to damage a home they are inspecting.

Another benefit of a home inspection is that it lets you know the locations of important items such as the gas main, access panels

to plumbing and tubs, water valves and electrical circuit-breaker switches or fuses. While the inspector will point out maintenance and repair problems that may need immediate attention, he should never solicit contracting work. This should be a red flag to you and is something that good inspectors don't do.

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17 Choosing A Fixed-Rate or Adjustable Rate Mortgage

A fixed-rate mortgage is a loan where the interest rate on the mortgage note remains the same through the entire term of the loan.

Fixed-rate mortgages are typically available in 10-, 15-, 20-, 25-and 30-year terms. Some fixed-rate mortgage loans are available for shorter terms with a balloon or lump sum payment at the end of the term. Fixed-rate mortgages are the way to go if you plan on staying in your home for more than five years or if you value the security of knowing that your loan's principal and interest payments will never change.

Make sure any loan you are interested in does not have a prepayment penalty clause in the mortgage note. Without one, you are free to shop for a better rate if you decide it is a good time interest-rate-wise to refinance.

Mortgage interest rates are a competitive arena. When shopping for a mortgage you should remember to seek the lowest rate and fees combination.

18 Understanding Adjustable Rate Mortgages

An Adjustable Rate Mortgage (ARM) is a mortgage loan that has an interest rate that periodically changes or adjusts. The rate can remain static for an initial term — sometimes called a "teaser period" —and then it adjusts periodically, based on various economic indices. The initial, or teaser, rate may last anywhere between one month to several years. ARMs typically have lower interest rates than fixed rate loans. The interest rate on an ARM can go down, but they also can go way up — which is why they present a risk that fixed-rate loans do not.

ARMs have caps or limits on how much the interest can rise with each adjustment period, as well as an overall cap over the term of the loan. The caps are an important feature to consider before you select your mortgage product. You might easily qualify for the introductory interest rate, but with the first or subsequent adjustments, your payments may become unaffordable.

When ARMs work

If you only plan to be in the home for only a few years (less than the initial fixed rate period) the lower rate in that period may significantly decrease your monthly payments.

Some first-time buyers like ARMs, because their loan payments grow as their income does. If you know that a job promotion is coming or you'll be receiving a large gift or inheritance, an ARM may be a good loan to help you step into homeownership and then transition financially in increments as your income increases. On the other hand, if you're not a risk-taker and will lose sleep worrying if your rate will adjust higher, then get a predictable fixed-rate.

Housing Facts

- 78% of recent home buyers said their home is a good investment, and 45% believe it's better than stocks.
- Just over 50% of U.S. homes are located in suburban areas

19 Understanding Alternate Mortgage Types

Can't get a standard mortgage, one that conforms to Fannie Mae or Freddie Mac guidelines? Not to worry. You can consider alternative types of home financing. Some of these carry higher interest rates, because the person or institution loaning you the money feels that there is a higher risk involved. Higher risk equals higher interest rates and terms that are not as attractive. Here are the alternatives:

Affordable housing loan— An umbrella term used to cover various loan products targeted to first-time home buyers. Many states, counties and communities offer attractive mortgage programs to new buyers. Ask your real estate agent or mortgage loan officer about the programs and qualification guidelines.

Assumable loan— An existing mortgage loan that can be "assumed" by another person. Most conventional loans are not assumable; government loans — Federal Housing Administration (FHA) or Veterans Administration (VA) loans — are typically assumable if the buyer qualifies.

Installment sale, also called a land contract—Usually a private agreement between a seller and buyer in which the title is not transferred until all payments have been made. These are more popular in slow housing markets. If you're considering an installment sale make sure that a real estate attorney reviews all the contract details before you sign.

Carryback financing— When a seller agrees to finance either the first or a second mortgage on the property. This might be attractive if you only qualify for 90 percent of the value of a home. Ask the seller if he will carry back or hold a 10 percent mortgage. In this arrangement, the seller basically assumes the role of a bank.

Purchase money mortgage— Any loan used to purchase the real estate, also referred to as "real property," which serves as collateral. This is another form of seller financing.

Blanket mortgage— A mortgage secured by more than one piece of property. A lending institution may require you to use another piece of property owned by you or another member of your family as collateral for the new house you want to buy.

Blended rate (or wraparound) mortgage— A refinancing plan that combines the interest rate on an existing mortgage loan with the current interest rate for an additional loan amount.

Subprime loan— A loan for home buyers who have low credit scores, or minimal or zero down payments. Because of the higher risk to the lender, these loans have a higher interest rate and may require you to agree to stricter loan terms, including prepayment penalties, higher loan interest adjustments and negative amortization. When a loan is negatively amortized, the borrower pays less than the full principal and interest payment each month. The unpaid amounts are added to the end of the loan.

Interest-only loans— Your monthly payments only cover the interest on your mortgage loan. Your payment does not include any principal payments to create equity. In a market with declining home values, you might lose money on the sale of your home, especially if you sell in the first two to four years.

Package mortgage— A mortgage secured by a combination of real and personal property. It's often used for vacation property such as a cabin, beach condo, or ski chalet.

Ways to Come up with a Down Payment

- Mom and Dad
- IRA Funds
- 401K
- Assistance Programs

20 Understand Down Payments

The days of 100 percent financing on homes are gone. Most lenders require home buyers to put at least five percent down. Even these programs are rare and require you to have an excellent credit score. The most common down payments are between 10 and 20 percent. Keep in mind that if you put less than 20 percent down you will be required to purchase private mortgage insurance, or PMI. This is an additional monthly payment, which basically means that you're considered a greater risk to the lender with less than 20 percent equity in your home.

Some buyers need to be creative in coming up with their down payment. Don't under-estimate mortgage lenders, they will follow a paper trail in order to find out how you came up with your down payment cash. If it didn't come out of a bank, retirement, or money market account, they will demand to know where it came from. Don't use a charge card to receive a cash advance as your source of all or part of your down payment. This will only increase your debt ratio and may disqualify you for the loan. Following are some additional ways you can come up with the down payment.

Mom and dad

Most lenders will allow your parents to "gift" you the down payment. The lender will require them to sign what is known as a "gift letter," which will prevent you from taking on additional debt to repay your down payment to your parents.

Individual Retirement Account (IRA) funds

If you are a first-time home buyer, the Internal Revenue Service allows you to withdraw and use $10,000 from an IRA towards your down payment. Check with your tax accountant before withdrawing funds from an IRA. If you are married, you and your spouse may each withdraw up to the maximum amount of $10,000.

401(k)

You can borrow from your 401(k) or similar retirement plan for a down payment. However, there are disadvantages of doing this. Contact a financial advisor or CPA for advice on this issue.

Down-payment assistance programs

Some states, counties and local governments have down-payment assistance programs for first-time home buyers who meet certain income guidelines. They might require you to purchase a home in a targeted area being redeveloped. Ask your loan officer if the area where you plan on buying has any of these lucrative down-payment assistance programs.

Home seller assistance

In some situations, home sellers might "gift" you the down payment. But beware of programs where the seller makes a contribution to a nonprofit charity, and the charity gives a portion of the contribution to you as a gift. The program itself is not a problem, but the IRS has had issues with these programs and has contested tax exemptions in some cases.

> Don't use a charge card to receive a cash advance as your source of all or part of your down payment. This will only increase your debt ratio and may disqualify you for the loan.

21 Understanding Mortgage Payments

Mortgage payments are typically due by the fifth of each month and considered late if not received by the 15th of the month. Mortgage payments are comprised of several components: principal, interest, taxes, and insurance. Often these components are referred to by the acronym PITI.

Principal—Principal is the amount of money you borrowed. In a mortgage loan the money borrowed is "amortized" or paid back incrementally over time. With each mortgage payment that you make, a portion of your payment is applied towards reducing your principal and another portion of your payment is applied towards paying the interest on the loan.

Interest—Interest is the increment of your payment that the lender receives in exchange for loaning you the money. Expressed as a percentage, the higher the interest rate, the higher your payment will be. Mortgage interest is currently tax deductible, excepting certain caps for high income borrowers.

Taxes— In most parts of the US, property taxes are charged by the state, county, or local jurisdiction. Additional taxes could also include: school taxes, utility taxes, or other special area taxes. It is typical for taxes to be incrementally paid with each mortgage payment into an escrow account and then forwarded to the appropriate governmental body by the lender or servicer of your loan.

Insurance—Lenders require property insurance to be maintained on homes they finance to protect their interests against fire and other potential losses. Additionally, mortgage insurance may be required on a particular loan to protect the lender in the event of your default. Incremental insurance charges are collected monthly and forwarded to the insurance companies when due.

Mortgage insurance can be canceled once your equity in the home reaches 20%, though it isn't canceled automatically. While you are supposed to be notified when mortgage insurance is no longer required, you would be wise to check with your lender directly if you believe you are close to 20% equity.

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22 Understanding the Good Faith Estimate

The Good Faith Estimate (GFE) is a disclosure form describing fees associated with obtaining a mortgage loan. You will receive a GFE after your loan application is submitted, but before the loan is underwritten. Closing costs, other than **LENDER FEES**, are determined by third parties. These **THIRD PARTY CHARGES** include the appraisal, all associated title company charges, escrow reserves, and prepaid fees (homeowner's insurance and taxes). These costs are *not controlled by the lender*.

As you review a GFE, note that the fees fall into three categories:

Amounts that <u>cannot</u> increase at settlement—

- Origination fee
- Credits or Charges (points) associated with the specific interest rate chosen (after rate lock)
- Adjusted origination charges (after rate lock)
- Transfer taxes

Amounts that <u>can increase by up to 10%</u> in total at settlement—

- Services required by and selected by the lender
- Title Services and lender's tile insurance if company selected or identified by the lender

- Owner's title insurance if company identified by the lender

- Services required that you can shop for if identified by the lender

- Government recording charges

Amounts that <u>may</u> change at settlement—

- Services required that you can shop for if not identified by the lender

- Title Services and lender's title insurance if company was not selected or identified by the lender

- Owner's title insurance if company was not identified by the lender

- Initial escrow account deposit

- Homeowner's insurance

The following GFE sections are controlled by the lender and cannot change unless the loan data changes:

<u>These fees CANNOT increase at closing</u>

Box 1 – *Your Adjusted Origination Charges* -- These are the fees charged by the lender and the monies that will be paid to the lender. This includes any origination points, discount points, underwriting fees, and processing fees.

Box 2 – *Lender Credits* – In exchange for a higher interest rate, a lender may offer a credit to offset some of the lender or third party fees.

Box 8 —*Transfer Taxes* –These charges are for state and local fees on mortgages and home sales.

The remaining GFE sections describe fees that do not vary based on the lender you choose:

<u>These fees CAN increase up to 10%</u>

Box 3 —*Required Services that lenders select*— If there are any third party vendors the lender requires you to use, those fees will be found here.

Box 4 —*Title Services and lender's title insurance*—Title fees are determined by the title company and may include (but aren't limited to) closing or escrow fees, document preparation fees, notary fees, attorney fees, title insurance, endorsements, and exam fees. These fees exist regardless of the lender you choose. You may choose your own title company or closing attorney, but if you do; fees for these providers can increase and the lender is not bound to the fees disclosed here.

Box 5—*Owner's Title Insurance*— If you decide to purchase an Owner's Title Insurance policy the cost will be disclosed here. You may choose your own owner's title insurance company, but if you do; fees for this provider can increase and the lender is not bound to the fees disclosed here.

Box 6—*Required Services that you can shop for*— If there are third party charges that you can shop for, they will go here. If you select the provider from a list that the lender provides, the actual charges at closing can only increase by 10%. Otherwise the cost at closing will be the actual cost charged by the provider you select, and the lender will not be bound by fees disclosed on the GFE.

Box 7 —*Government Recording Charges*— Recording charges assessed by your state or local government will be disclosed here.

The following CAN increase at Settlement

Box 9—*Initial deposit for your escrow account*—Reserve deposits are funds paid at closing if you plan to escrow your taxes and insurance. You pay a set number of months' taxes at closing which varies based upon the county and state where the property is located, as well as, the due date for the taxes to be paid. Tax payments must be current for the year. You also pay a set number of months' insurance.

These fees are paid regardless of what lender you choose. You do not pay any fees in this section if you choose to handle escrow on your own (known as waiving escrow). If you are waiving escrow the amount shown here will be $0. However, in some circumstances, a lender may impose a one-time fee (.25% of the loan amount) to permit escrow waiver. An escrow waiver charge will be disclosed in Box 2.

Box 10—*Daily Interest Charges*—You are required to pay interest on the loan for the remaining days of the month beginning with the day of closing. For example, if you close on the 16th of a month with 30 days, you will pay 15 days of interest at closing.

Box 11—*Homeowner's Insurance*— You are required to pay the first year's insurance premium prior to closing on the purchase of a home.

Changed circumstances – if any of the facts changed that were disclosed by you to the lender prior to the provision of the initial GFE, the lender's fees can change. A new GFE will be provided within 3 days of the lender discovering the changed circumstance.

23 Understanding Home Appraisals

Home appraisals are used to determine the fair market value of a property. In determining a property's current value, an appraiser will consider recent sales of similar homes in the area.

Here's how the process works:

1. For government insured mortgage loans, the mortgage lender orders an appraisal according to federally mandated guidelines. If the home appraises for less than the contract price, the mortgage lender will only loan up to the appraised amount. The buyer and seller must then agree on how the shortfall will be met: either the buyer must put down more money or the contract is modified to reflect the lower appraised price.

2. The appraiser visually inspects the features, number of bedrooms, bathrooms, location, condition, remaining useful life, and other factors that could affect a home's value. Rooms are measured, diagrams are drawn, photos are taken of the property, and then the appraiser prepares the appraisal report. The appraisal inspection is not the same as a physical home inspection, which looks for any defects of a home and faulty equipment such as electrical and heating systems.

Housing Facts

- The median age of first-time buyers was 31 and the median income was $62,400, up from $59,900

- The typical first-time buyer purchased a 1,570 square foot home costing $155,000.

3. After the inspection, the appraiser establishes value by using either the "cost approach" or the "sales comparison approach."

- The cost approach takes available information such as local building costs, labor rates and other factors to determine how much it would cost to build a similar or comparable home.

- The sales comparison approach relies on recent sales in the area and assesses properties that are comparable or similar in age, style, condition and location and then makes adjustments based on differences.

24 Understanding Property Insurance

Disaster strikes when we least expect it, and having homeowner's insurance gives us peace of mind from many forms of disasters — but not all. You can add additional coverage through broader policies and federal flood insurance. Most mortgage lenders require that you purchase coverage before closing or entering into escrow on a property.

Some lenders, however, don't demand insurance on condominiums. But the condo association may require you to insure the interior of your unit (including your possessions), while the condo association is required by state law to insure the exterior of the building and all common areas. State insurance laws vary on coverage and limits, so ask an experienced insurance agent in your state about specific laws. It's wise to get a feel for insurance rates in areas with above-normal incidences of natural disasters, including earthquakes and tornadoes. In some areas, coverage may not be available at affordable rates, if at all, or only through a state fund, which offers only limited coverage.

The types of policies vary, according to what's covered:

Basic coverage— Includes vandalism, theft, explosions, fire, lightning, windstorms, hail, window, glass breakage, and damage from vehicles, aircraft, and smoke.

Broad coverage— Includes damage from ice, snow, sleet or falling objects, bursting or freezing of pipes,heating or air-conditioning systems and appliances, electrical malfunction to electrical systems and appliances, and structural collapse.

Liability coverage— Coverage for a loss sustained inside a condo unit or on a single-family home property — for example, a guest slipping and falling in a bathtub or someone falling on an icy sidewalk.

Replacement costs insurance—Covers the cost of replacing a structure but not the land. Look for a guarantee of 80 percent of full replacement costs.

Deductible—The amount of loss expenses you must pay before insurance payments kick in.

Actual cash value— Replacement costs minus depreciation.

Protection against flooding

Do you live in a flood plain? Then you better have insurance. Most federally sponsored home loans require you to obtain flood insurance if you're purchasing property in a flood plain. Your mortgage lender will receive a flood certification on your property during the application process, and if it's discovered that your home is in a flood plain, you will need to purchase insurance.

The Federal Emergency Management Agency (FEMA) operates the National Flood Insurance Program, which offers coverage to homeowners in participating communities. FEMA categorizes flood zones according to how likely they are to experience flooding. Areas rated an "A" are at the highest risk, and all mortgage lenders offering a loan in an A flood zone will require the borrower to obtain flood insurance. Locales labeled B, C, D, V and X carry lower risks and the possibility that mandatory insurance may not be needed.

Keep in mind, however, that lower risk doesn't mean that an area won't experience severe flooding. Evolving weather patterns can affect areas that historically haven't had predictable flood patterns; these areas may also lack an extensive flood-control infrastructure. Your home can also flood from backed-up sewer systems that are overwhelmed by severe storms.

> It's wise to get a feel for insurance rates in areas with above-normal incidences of natural disasters, including earthquakes and tornadoes.

25 Understanding the Attorney's Role

It is always advisable to consult with a real estate attorney in the purchase of a new home. Buying a home is the largest purchase you'll likely make in your lifetime. The legal consequences from mistakes or omissions during the buying process can be severe.

Costs for an attorney vary across the country, but remember it is a competitive market with many providers. Don't be afraid to negotiate a better deal than is first offered. Ask your agent to recommend an experienced, full-time attorney who is state-licensed and specializes in residential real estate law.

What an attorney does

An attorney who specializes in residential real estate can review your purchase contract, preferably before you sign it. This is especially recommended for first-time home buyers. The attorney will also work with your mortgage loan officer, the home seller's attorney and agents to make sure that dates are set for attorney approval, home inspection, mortgage commitment and other contingencies.

Your attorney will also review important documents, including the deed, bills of sale (for personal property, such as appliances) legal descriptions, mortgage loan documents, plat of survey, and the title and title insurance policy. In some states the attorney will conduct your closing while in other states they may attend your closing.

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26 Understanding Closing

Your purchase contract is now wrapped up, and your long and winding path to home buying successfully ends on the day of closing (also known as escrow closing, or settlement). You will go to the title company or attorney's office to sign your loan documents and other disclosures and transfer ownership. The key players present may include the seller, real estate agents, mortgage lenders, attorneys, and title company closing agents.

At the closing, you will see many documents required by your mortgage lender, the title company, and local and state agencies. It can be easy to get distracted or frustrated by all paper. Keep in mind, all the paperwork is to guarantee that the transfer of the property to you is done properly.

These are the important things to know about a closing:

Closing—You and the seller finalize all the terms in the contract— and the property is all yours! The seller gives you the title in exchange for the contract purchase price. He also delivers a deed, title evidence and insurance, the property's plat of survey, leases (if applicable) and proof of completion of any required repairs based on the home inspection.

Escrow closing—This is when all the aspects and documents related to the transfer of the property from the seller to you are finalized (similar to a closing). Escrow agents may be title companies, attorneys, or trust or escrow companies. Check the laws in your state to see if escrow closings are legal, and if so, what the procedures are for holding one.

Survey— You should receive a new property survey, or plat, when you buy a home, though in some states it is not required. This diagram legally confirms the exact property boundaries and dimensions of your home.

Title— The legal document that says you own the property. Inquire about the different ways you can hold a title in your state (for example, owning a home with someone else).

Title insurance— The insurance policy is issued after a search for a property's public records, which includes liens, conditions, restrictions and other matters that might affect the marketability of the title.

Deed— The document that conveys the title of ownership of a property.

IRS Form 1099— The closing agent is required to report all real estate transactions to the Internal Revenue Service using this form.

Real Estate Settlement Procedures Act— A form known as the HUD-1 statement, or the Uniform Settlement Statement, is required in all residential real estate transactions with full disclosure of all settlement costs. This form applies to those loans financed by all U.S. government-related mortgage loans.

Closing statements— Part of the HUD-1 statement, this lists all itemized payments and credits of a buyer-and-seller transaction.

Prorations— Some expenses or items related to the property or mortgage loan that are prepaid or paid in arrears must be prorated between the buyer, seller or mortgage lender at closing. Real estate taxes, condominium assessments and utility costs are common expenses that are prorated between the parties.

Homeowners insurance— Most mortgage lenders require that you bring proof (known as a "binder") that you have homeowners insurance on the property you're buying.

Keys and automatic-garage-door openers— The seller must bring you all the keys of your new home, including the one for the mailbox, and the garage door openers. Handing over the keys to the buyer at the end of closing is known as "delivering possession of the property to the buyer."

Certified checks— Most closing agents require certified checks for any payments due at closing. These checks are proof that the money is available when the check is presented.

Photo identification— All closing agents require you to bring a photo I.D. to a closing.

27 Understanding Final Walkthroughs and Funding

Problems can crop up at the closing table. Most of them are easily fixed, some will take additional time to iron out, and in rare occasions, you might have what is called a "dry closing". This is when all the documents are in order, but the funds from your mortgage lender have not arrived in the bank account of the attorney, title or escrow company. Once the funds arrive and the proceeds are distributed to the seller, title company and real estate brokers, you will have possession of your new home.

The final walk-through

Do a final walk-through of your new home within 24 hours prior to closing to verify that nothing has materially changed since the home inspection, that the seller has completed any required repairs and has left the home in clean condition. None of the seller's personal property should be left behind, unless it was included in the purchase contract. Make sure floors are swept, carpets vacuumed, bathrooms cleaned, kitchen-cabinet interiors wiped down, and there is no mountain of garbage left on the curb.

During the walk-through, you should also find the manuals for appliances, furnace and air-conditioner. If the home you're buying has automatic garage door openers, they should be left out for you to test. Run any appliances, hot and cold water, and flush the toilets to make sure they are working properly. If there are problems, or it appears that the owners can't vacate the home and deliver it to you at closing, tell your real estate agent or attorney.

If there are any repair issues, work them out with the seller at closing. You can ask him to compensate you for incomplete repairs or for newly discovered damage to the property.

On closing day, the title company will have completed a title search on your new home to discover any issues that could "cloud" your title. These issues might have to be resolved at the closing. Your attorney should examine the property survey and the legal description to verify that the diagram accurately represents the parcel of land you're buying. If there are problems with either of these documents, they need to be resolved at the closing while everyone is present.

Where's the money?

Among the most nagging closing problems, is when the mortgage funds from your lender are late or fail to arrive. Most lenders today wire the funds electronically, routing the money from your lender's account to the Federal Reserve and then on to the attorney or title company's account. Depending on the time of day the wire was sent, the funds won't always arrive in time. It is a good idea to call the attorney or title company conducting the closing to verify receipt of funds prior to your departure.

Lastly, make sure you receive all the keys and alarm codes. If you bought a condo, make sure that you've received the mailbox, storage locker and unit keys.

The TotalPath To Home Buying

That's it! You have completed the **TotalPath to Home Buying**. You have a made an important step on another path—the one that leads to the American Dream!