

Home Buyers Guide

Introduction

What You Should Know Before Buying a Home a comprehensive look at all that is involved in the home-buying process. This presentation is filled with information that will help you make an educated decision when it comes to purchasing your home.

Each section details the process and lays out the steps involved to fully understand the best way to prepare to buy, utilize your agent, find a home, make an offer, and more.

Let's face it. Buying a home can be stressful. Not only is it the biggest purchase you may make in a lifetime, but you have to take a look at goals, commitments and lifestyle. There are many reasons people buy homes, and the steps and strategies they should follow will vary accordingly. Keep in mind that early decisions will vary depending on your experience and needs. An Internet connection will help you utilize the many resources available online.

What can you afford?

Before you start looking at houses - you must first take a look at your finances. You will need to review your financial situation to determine what you will be able to pay down and how large a monthly payment you can

handle. You'll need this information when it's time to sit down with your lender anyway.

If you don't have a net-worth statement already, it's time to put one together. This summary of your assets and liabilities will help you to determine the maximum amount you can afford for a down payment. Some of your money may be tied up in non-liquid assets such as your current home, land or collectibles. You must allow yourself plenty of time to access these funds by either selling or borrowing against them.

The bottom line will be the sum that you could put down on the new house, if you wished to use it all. The more cash you pay up front, the less you will have to pay month by month on the mortgage, and the lower your total interest costs will be.

Conversely, the less you put down, the greater will be your leverage, tax deductions for mortgage interest, and available funds for other expenses, including decorating and furnishing. You'll also want to look at your spending habits to figure out how the new house payment will figure into your budget.

How's your Credit?

It's a good idea to take care of credit problems ahead of time.

An important part of your strategy for buying a home includes paying attention to your current credit status. Your lender will scrutinize your monthly income and outgo at the time you apply for a mortgage. Debts and other obligations reduce the amount of cash you can spend on housing. If you are planning to buy a new car, boat or major furniture (paying by either cash or credit), postpone the purchases until after you buy your home.

The lending process requires mortgage lenders to request a mortgage credit score from credit bureaus to help them determine your creditworthiness. A good score may change the time required to get approval on your mortgage as well as the rate you receive and the way in which your mortgage is managed.

The analysis takes into account about 100 variables gathered from your credit file at one of the big three credit bureaus - Experian, Equifax and Trans Union - and specifically looks at such things as how much you are currently in debt, how many places you have applied for credit recently, and what kind of credit you have had in the past.

Before you apply for a mortgage loan, find out whether anything in your credit record might present a problem. You can confidentially find out directly from the credit bureaus, how your credit stands. Order a report two or three months before making a loan application to give yourself plenty of time to iron out any wrinkles that you discover. In this age of information technology, you may find yourself to be a victim of fraud - if this is the case, it may take even longer to clear up problems.

The Downpayment

These days, the competitiveness of mortgage lenders opens up your options for the down payment. In some cases, you want to put 20% down towards your new home because at that level you can avoid paying private mortgage insurance.

In other cases, 10% or even 5% may be required. If your calculations indicate that you can't put enough down, you may have to come up with creative ways to buy a home.

Pre-Qualifying for a Loan

Before you even start looking for a home, it's a good idea to pre-qualify for a loan. Visit with a lender - Mortgage company, savings and loan, bank or credit union. Ask them to determine the maximum amount you qualify for based on your specific financial information regarding the types of loans available.

The pre-qualifying interview should be free, and at some institutions can be done over the telephone. Remember to bring tax returns, salary stubs and other financial data to the pre-qualifying interview. You'll want to find out how much mortgage debt you can carry under the most commonly available mortgages.

Because the 30-year fixed-rate mortgage is still the benchmark against which other loans can be compared, find out what size conventional 30-year loan you can qualify for under the guidelines issued by secondary-market mortgage buyers such as Fannie Mae or Freddie Mac (these are known as 'conforming' loans).

Also get information on one- and three-year adjustable-rate mortgages, as well as a 15-year fixed-rate loan. Knowing what you can afford to buy with these four mortgage types is a useful starting point. If you're planning on getting an FHA-insured or VA-guaranteed mortgage, you may get a bigger loan. However, keep in mind that sellers in a hot market are usually not eager to do business with buyers using this type of financing due to the extra paperwork and appraisal delays these loans often entail. So it's a

good idea to see whether you can manage a home purchase without resorting to an FHA or VA mortgage.

Finally, remember that you are not obligated to use the lender who pre-qualifies you. When you're ready to borrow, compare the rates and mortgage options available from several lenders. Because each inquiry on your credit

report will slightly reduce your credit score, be sure to limit the number of inquiries. If you are confident with the lender you choose, it is a good idea to make a full loan application and start the loan process. This will make you a much stronger purchaser.

Utilizing Your Agent

The quickest and easiest way to find a home is to work with an agent. Nearly 90% of all homes offered for sale at any given time are listed with agents.

A real estate agent is the person who is best prepared to help you find the type of home you are looking for. Their knowledge of the area, local laws, fees, customs, market conditions, etc. will give you a leg up when finding the right home to suit your wants and needs. Further, the agent can be of help throughout the entire real estate transaction. If you are attempting to search for a home on your own, when it comes to negotiating, you will be going up against that seller's agent. Why not have a professional in your corner as well?

How a Real-Estate Agent Helps You

A real estate agent can help you in the following ways:

Determine the neighborhood where you would like to live - There are two things you'll want to know. First, will the property provide the environment I want for a home or investment? Second, will the property have resale value when I am ready to sell? Your agent will be able to answer these questions based on the access to information at his/her fingertips.

Provide information on schools, shopping and other nearby amenities - Agents have access to a variety of informational resources. They can provide local community information on utilities, zoning, schools, public transportation and a variety of other subjects. They can even have inside info on new construction such as shopping centers, road improvements, parks, etc.

Show you the type of houses you are looking for - A real estate professional has many resources to assist you in your search. Sometimes the property you are seeking is available but not actively advertised in the market. It will take some investigation by your agent to find all available properties. Your real estate agent can assist you in the selection process by providing objective information about each property.

Direct you to a lender - If you give a real estate agent some basic information about your available savings, income and current debt, he or she can refer you to lenders best qualified to help you. Most lenders - banks and mortgage companies - offer limited choices.

Guide you through making a written offer-to-purchase - There are many negotiating factors, including but not limited to price, financing, terms, date of possession and often the inclusion or exclusion of repairs and furnishings or equipment. This may seem a bit overwhelming. Use your

agent's experience to guide you. The purchase agreement should provide a period of time for you to complete appropriate inspections and investigations of the property before you are bound to complete the purchase. Your agent can advise you as to which investigations and inspections are recommended or required.

Oversee the transaction from offer through closing - One of the final steps is the closing, or settlement, as it is known in different parts of the country. Every area has its own unique customs. In some areas, the title or escrow company will handle this process. In other parts of the country, an attorney does it all. Again, your real estate agent can guide you through this process and make sure everything flows together smoothly.

Discover and solve problems that might arise - Once you have a negotiated agreement in hand, it is time to complete the evaluation of the property. Depending on the area and property, this could include inspections for termites, dry rot, asbestos, faulty structure, roof condition, septic tank and well tests, just to name a few. Your agent can assist you in finding qualified responsible professionals to do most of these investigations and provide you with written reports. You will also want to see a preliminary report on the title of the property. Title indicates ownership of property. The title to most properties will have some limitations; for example, easements (access rights) for utilities. Your agent, title company or attorney can help you resolve issues that might cause problems at a later date.

Help with moving preparations - Since agents deal with this sort of thing on a daily basis, they have access to many resources when it's time to start packing. Some agents even work out deals with local companies for discounted rates for referrals. If your agent offers, take them up on it.

What to look for in an agent

What you really want is an agent who will do a good job for you. It's important to understand that personality plays a big role in this because you will be working closely together. Your ability to communicate effectively with each other is key.

House Hunting

Because of the many factors to consider, finding the right home can be a rigorous process. It can also be a very fun process. There are no hard and fast rules to house hunting, but there are some tips you can take to assist you in the procedure.

It's helpful to narrow down the home-finding process by asking yourself what it is you want in a home. If you can determine exactly what you want, you're halfway to locating it.

Often what we want in a home is dictated by our circumstances. For example, big families usually want a big house with room to roam. Retired couples, on the other hand, often are looking for a smaller, single-story home that's close to shopping and senior activities. People who love to work in the garden often look for homes with a big yard.

It's also a good idea to focus on the location and general quality of the property. Don't go after an exact price or a particular feature, be it a deck, a

high-efficiency furnace or an extra bathroom. Price can be worked out in negotiation with the seller (given the right general ballpark), and a good-quality home in a good location can be tailored to your specific needs later.

Getting Started

Start by making a list of your needs and wants. List your dislikes too.

This will help your agent zero in on a neighborhood and, together with your price range and help your agent narrow the field of prospective properties. If you can't afford what you want where you want it, sacrifice something inside the house rather than sacrificing the location. You can add an additional bathroom or install hardwood floors to bring a house up to your standards, but you can't improve the neighborhood single-handedly. You may want to look online first to see if your wants and needs are realistic with what you can afford.

After your REALTOR® provides a list of homes based on the criteria that you supply, he/she will then take you on a tour. You'll quickly find the price range of the homes in the neighborhoods and you can decide if you can afford them. Your agent will show you many properties. Consider touring an educational process as it helps you get up to speed both on what's available in the market and how much you should reasonably expect to pay for it. (This knowledge is vital later on when you want to make an offer.)

At most open houses you will find an information sheet about the house. The most complete spell out such things as square footage of lot and house size, room sizes, property taxes, average monthly utility bills, and the ages of appliances and major mechanical systems, as well as the number of bedrooms and baths, and other basic data.

Sellers and their agents also are required by law to warn buyers of 'material' defects in a property that would not be apparent during a routine inspection.

If, at first glance, this looks like a house you'll want to pursue, sketch out floor plans on your first visit; they'll help you envision the house hours or days later. Also jot down special features. If you're looking at several homes, these will help you remember which was which.

Evaluating the Property

The true value of a property depends to a large degree on its physical condition. A home in good condition, understandably, is worth more than a home in poor condition. Yet, this simple concept is not always clearly seen by many homebuyers.

You must look beyond the surface. The property may have a new coat of paint and there may be lavish landscaping. However, if the structure, the foundation, one of the home's operating systems or even the land beneath is defective, the home may actually be worth far less than what the seller wants.

The purpose of a home evaluation is to determine if there are any defects in the home's condition that lower the value. If you conduct a thorough examination before you complete your purchase, you will avoid paying too much for a home. And, you may avoid buying a problem home altogether. Keep in mind that this is only one factor in determining the value and what you should offer for the home.

A Closer Look

Remember, don't be fooled by fresh paint and a green lawn. You're concern with the more important underlying condition of the property. In addition to hiring a home inspector, there are four areas that you can quickly check to determine if the home has serious problems.

Roof- The roof is one of the critical areas of the home - you don't want the rain coming in! Although fixing a roof isn't usually very expensive, if it's worn out and needs to be replaced, it can be quite costly. A new roof can cost between \$5,000 and \$15,000 or more depending on the type. A quick method to determine if the roof is leaking is to look in the attic, but don't climb into the attic yourself, unless you know how to walk on joists; you might step through the ceiling and injure yourself. Simply open the attic access panel and look inside.

With a flashlight, check the rafters. They should not show water stains. Any water stains indicate leaking. Next, with the flashlight off, look up at the roof. Any pinpoints of light shining through indicate a worn roof.

If either of these conditions exists, call in a professional roofer for a more thorough inspection.

Foundation - A cracked foundation is a serious matter. It can cost tens of thousands of dollars to fix. In severe cases, it may not be fixable.

Walk around the perimeter of the house looking at the peripheral foundation. Look for 'V' shaped cracks (larger at the top than at the bottom). These indicate serious problems. Also, look for extensive cracking of walls and ceilings in the house. Call in a structural engineer if you suspect a problem.

Piping - Avoid galvanized steel plumbing found in older homes. After 30 years or so it tends to rust out and leak. Replacing it can cost \$5,000 or more for a whole house.

Look at the pipe outlets near the water heater and at the pipe leading to water faucets on the outside of the home. Galvanized pipe is gray in color. Copper, which rarely corrodes and which is the plumbing of choice these days, is copper colored, or sometimes has a greenish tinge if it has oxidized.

Call in a plumber to inspect the property if there's galvanized pipe.

Flooding - Sometimes homes are poorly situated on their lot. Other times there is underground water. This can cause flooding under the house, which can seriously damage the home. Solutions may include something as simple as a sump pump or as extensive as expensive excavation.

In the basement, check for water stains on the foundation indicating flooding during rainy periods. If you find these, call in a soils engineer to confirm the problem and suggest solutions.

A Professional Home Inspection

One of the smartest things you can do is to get a professional inspection before completing a home purchase. In today's market place, almost all buyers order these. You should include a demand in any purchase agreement that you have the right to have an inspection by a professional inspector of your choice and that you have the right to approve the inspection report. Typically you will also demand a minimum of 10 days for this process. Your agent can help you with the actual wording. You can

expect to pay around \$300 to \$500 for the inspection depending on the structure and the region in which you live.

When selecting an inspector, agents can make recommendations. You will also want an inspector who has been in the profession a long time. Ask for recommendations from previous customers and check these out.

You should also look for an inspector who belongs to national, state and local trade organizations, if they exist in your area.

In particular, ask the inspector to check for lead paint and asbestos (typically found in ceilings and insulation on heating systems) in the home, as these are toxic and can be quite costly to clean up. The federal government requires that the seller give you a lead disclosure statement. But if the seller does not know if there's lead in the home, he or she is not required to inspect for it. If your inspector discovers lead or asbestos, you can demand the seller clean it up prior to you completing your purchase.

What is the Current Value?

For residential real estate the method universally used by professional appraisers, real estate agents and homebuyers is to check the 'comps.' These are the comparables - recent sales of homes comparable to the one you are considering purchasing.

How do you know the true prices of comps? Your agent can almost instantly provide you with computer-generated lists of recent sales. When you look at comps, however, be sure to ask yourself these four important questions:

How Old Is The Comp?

More than six months and prices may have risen (or fallen) substantially since the sale.

How Similar Is The Home?

No two houses are exactly alike. You have to factor in differences in amenities (such as pool or spa which could bring it up or down in some areas), and most important, size or the square footage. All else being equal, a bigger house will sell for more, a smaller house for less.

Are There Special Circumstances? Sometimes there are reasons a home sells for less or more. There could have been a death in the family and the seller wanted out quickly, at any price. The house could have been in foreclosure. Or, the buyers might have fallen in love with the comp and overpaid. Agents familiar with the sale can help you learn about any special circumstances of the comp sale that could have affected price. This is especially important to discover if one comp stands out as being much more or less expensive than all the others. It's a good idea to get at least three comps. Five are better. The challenge is to find enough recent comp sales to give a good picture of what the home you're considering is really worth.

How Important is Re-Sale Value?

When buying a house, you are looking for a place to call home, but because a home is an investment, you must take future resale into careful consideration. Will you get a return on that investment should you decide to sell? If you are in a situation that might require you to relocate in the future or you plan on selling anyway because you want to upgrade to a larger house or another area, you should consider the following items that may have a factor in the resale value of the home you eventually buy.

Location, Location, Location

What makes a good location? Does a good location guarantee that there will be strong price appreciation in the future and make reselling quick and profitable? There are at least five factors that influence the overall rating of a neighborhood.

You should carefully check out each when you consider making a purchase.

1. Neighborhood Appearance - are all homes well painted with nice landscaping? Is there any graffiti? Most people want to live in a neighborhood that just looks good.
2. Quality of Schools - Studies have shown that homes in areas with excellent schools show the fastest and largest price appreciation. You can check the quality of schools by going to the local school district and asking to see the standardized scores. Some states such as California, even rank schools. The higher the scores, the better and more attractive they are.
3. Crime Rate - Although crime is dropping in most metropolitan areas, you should pay close attention to the stats in your area.
4. Access - Is the neighborhood tucked away? Is it hard to find? Does the house sit on a busy street? Access to the property and the neighborhood can play key roles.

5. Shopping- Convenience is what you are looking for. Grocery stores and businesses you may use on a daily basis in close proximity to your neighborhood is an attractive incentive.

And then there is the obvious - a home right next to a busy shopping center, a toxic dump site, or a noisy freeway, is going to be harder to sell.

Lot and Landscaping - Even though most real estate value is usually concentrated on the building, the lot is important, too.

It's not a good idea to purchase an over-landscaped property, either. You would normally pay a premium for that, which you may not be able to recover when you sell. You will get your best value if the house is moderately landscaped or under-landscaped for the area. You can always improve the landscaping during your ownership by improving the grass and adding bushes and trees. Just do not spend too much.

House Size - In each residential neighborhood, houses will vary in size and rooms, but they should not be too different. If resale value is an important consideration, you should not buy the largest model in the neighborhood. When determining market value, the homes nearest to yours are most important. If most of the nearby houses are smaller than your house, they can act as a drag on appreciation.

On the other hand, if you buy a small or medium house for the neighborhood, the larger homes can help pull up your value. This is one of those times where determining your 'wants' versus your 'needs' can be extremely important. Buying what you need in a more prestigious neighborhood may provide more financial reward than getting what you want in a less desirable neighborhood.

Bedrooms and Bathrooms - Three and four bedroom houses are the most popular among homebuyers, so if you can stick in that range you will have more potential buyers when it comes time to resell. Five is okay, too, as long as you do not have to pay too much extra for the additional bedroom. There should always be at least two bathrooms in a house, preferably at least two and a half. One bathroom with a place to wash up for day-to-day visitors, one for the master bedroom, and at least one to be shared by the other bedrooms.

Closets - Walk-in closets are extremely desirable for the master bedroom. For the rest of the house, just be sure there is plenty of closet space. Don't forget space for linens and towels.

Garages - Garages add to the resale value and you should always make sure to get at least a two-car garage. Lately, three-car garages have become desirable in some areas of the country.

The Kitchen - Family activity centers around the kitchen, so this is the most important room of the house. Larger kitchens are better, and they should be provided with modern appliances. Obviously, the dining room and breakfast nook should be located adjacent to the kitchen. In newer houses, the family room should also be extremely close to the kitchen. There should be easy access to the back yard, as there will be occasions for barbecues and outdoor entertaining. In addition, it should be a short trek between the garage to the kitchen so hauling groceries in from the car does not become a horrendous chore.

Swimming Pools - Swimming pools do not provide as much added value as they once did. Safety issues about families with younger children have become more publicized than in the past, so families with small children tend to avoid homes with pools. As a result, having a pool may actually

reduce the number of potential homebuyers when you try to resell the home. Buy a home with a pool for your own enjoyment, not as an investment.

Making an Offer

After house hunting for a while, you'll eventually find one you want to buy. It should fit your needs and the price will be in your ballpark. However, buying a home is not like going to the store and buying a pair of pants. It is certainly more involved than buying a car- and more important. Rather, it is a matter of give and take, of negotiation. Don't let the word 'negotiation' scare you. It is just part of the whole process. Normally, you will make an offer to the seller. It can be for the full price and terms the seller is asking, for less, or even for more!

What Price do you offer?

The big question is always what to offer. You already know the seller's asking price. But what price are you going to offer and how do you come up with that figure?

Determining your offer price is a multiple-step process.

First, you look at recent sales of similar properties to come up with a price range. Then, you analyze additional data, such as the condition of the home, improvements made to the property, current market conditions, and the circumstances of the seller. This will help you settle on a price you think would be fair to pay for the home. Finally, depending on your negotiating style, you adjust your 'fair' price and come up with what you want to put in your offer.

Comparable Sales - Comparable sales are recent sales of homes that compare closely to the one you are looking to purchase. Specifically, you want to compare prices of homes that are similar in square footage, number of bedrooms and bathrooms, garage space, lot size, and type of construction. If the home you are interested in is part of a tract of homes, then you will most likely find some exact model matches to compare against one another.

There are several main sources of information on comparable sales, all of which are easily accessed by a real estate agent. It is somewhat more difficult for the general public to access this data, and in some cases impossible. Two of the most obvious information sources are the public record and the Multiple Listing Service. To begin, you will need to determine the home's true market value. A CMA (Comparative Market Analysis), which will tell you what other similar properties have sold for, will be helpful as will an evaluation of such things as the quality of schools and neighborhood. (As discussed in the HOUSE HUNTING section.)

Property Condition - Since you have toured the property you are interested in, you should know how it compares to the general neighborhood. All you have to do is put the home in one of three categories - average, above average, or below average.

When evaluating a home's condition, there are a number of things you should consider. Structural condition is most important - items such as walls, ceilings, floors, doors and windows. Your inspection will reveal the true identity of the property. The front and back yards should be in reasonably good shape. The missing ingredient will be information on the condition of the homes from your comparable sales list. Your agent may

have actually visited most of those homes and be able to provide key insights.

If the home is a fixer-upper, be sure you determine how much it will cost to put the home into proper shape. Then deduct the fix-up costs from the 'good shape' market value. That should give you the true value based on the condition of the property. If you offer more than this amount, you may be cheating yourself by paying too much for the home.

Give special attention to properties that are offered, 'As Is'

Home Improvements - Even when comparing exact model matches within a tract of homes, you should note whether the previous owners have made any substantial improvements. Cosmetic changes should be largely ignored, but major improvements should be taken into account. Most important would be room additions, especially bedrooms and bathrooms. Other items, like expensive floor tile or swimming pools should be taken into account, too, but should be discounted. A pool that costs \$20,000 to install does not normally add \$20,000 in value to the home. Rely on your agent to give you guidance in this area.

Market Conditions - You will also want to adjust your offer according to the condition of the overall real estate housing market. For example, in recent years and in many parts of the country there has been a shortage of homes relative to the number of buyers. The result has been quick sales, often for the full asking price. In some areas multiple offers, some for more than the asking price, has been the rule.

If the market conditions are such that there is a low inventory of homes and many buyers, you will want to consider making your top offer first. Indeed, you may want to offer full price, if possible. Check with your agent to see

what advice he or she can give as to other offers that may be coming in and as to the best strategy for you to use.

Other Factors - Find out how long the house has been on the market. If it's been a relatively long time, something may be seriously wrong. The house may be on a busy street, it could be in questionable condition, have structural problems, or just suffer from poor marketing by the seller's agent. Avoid buying the best house on the block. The best house will appreciate at a slower rate because other less-valuable houses nearby bring down the value. Buying the worst (lowest-priced) house in a nice neighborhood makes sense because its higher-valued neighbors will accelerate its appreciation.

Writing an Offer

The next step is to write an offer - which is not as easy as it sounds. Your offer is the first step toward negotiating a sales contract with the seller. Since this is just the beginning of negotiations, you should put yourself in the seller's shoes and imagine his or her reaction to everything you include. Your goal is to get what you want, and imagining the seller's reactions will help you attain that goal. The offer is much more complicated than simply coming up with a price and saying, 'This is what I'll pay.' Because of the huge dollar amounts involved, both you and the seller want to build in contingencies and protections for your investment and limit your risk.

Your offer must be written and should contain certain elements. You include not only the price you are willing to pay, but other details of the purchase as well. This includes how you intend to finance the home, your down payment, who pays what closing costs, what inspections are performed, timetables, whether personal property is included in the purchase, terms of

cancellation, any repairs you want performed, which professional services will be used, when you get physical possession of the property, and how to settle disputes should they occur. It's important to understand that you can withdraw your offer at any time before the seller's acceptance of it is communicated to you. However, once you know the seller has accepted it (with exactly the terms and price you offered), you've got a deal. In other words, the purchase offer is intended to be a legally binding document. You should not make the offer unless you fully intend to purchase. This is where your agent will really come into play - by helping you prepare the offer. It's also a good idea to have your attorney check it over. In some states, it is required that an attorney prepare the paperwork.

What Goes into an Offer?

There are many parts to the offer including an accurate description of the property, the buyers' correct names and the precise price and terms offered.

Here are six other essentials you will want to consider putting into your offer:

The good faith deposit (also called 'earnest money'). You want the deposit to be large enough to convince the sellers that you are a serious buyer. On the other hand, you want it to be as small as possible, because it puts your funds at risk.

Some agents suggest that 2% to 5% is a reasonable amount for a deposit while others (depending on area) may suggest 5% to 10%. However, you can offer any amount that feels comfortable. One way to avoid tying up your cash until you're sure the deal's going to go through is to initially offer

only \$1,000, then increase the deposit after the contingencies have been removed.

Although technically the deposit is the seller's money, it's usually a good idea to have it deposited into a neutral party's account, such as an agent or the escrow company's fiduciary account.

Home Inspection Contingency - This authorizes you to have a professional home inspector check over the property. Usually a time frame of two weeks is given for the inspection. The contract usually stipulates that you must approve the report for the purchase to go through. If you don't approve it, the sale is off and you get your deposit back. You will also want to get a termite inspection (normally required to get financing) as well as other inspections which may be indicated in your area such as soil, radon, lead, asbestos, building code compliance and so on. If a problem is discovered, you may want to renegotiate the purchase having the seller pay for getting it fixed. (What to do when the inspection reveals defects is discussed later in this presentation)

Mortgage Contingency - This states that, if you are unable to get a mortgage, you are not required to complete the transaction. Even if you are pre-approved, an unexpected change in your credit status (such as a job loss or change) could affect your ability to get financing. Or the home itself might not appraise for the value necessary to get the loan. Without this contingency you could be obligated to complete the sale, and be liable for damages to the seller if you didn't.

Liquidated Damages - Now found in most purchase offers, this states both parties agree that if you fail to follow through on the purchase of the home,

you are limited to losing only your deposit. Some states limit the liquidated damages to a certain percentage of the purchase price. Your agent can tell you of any limitations in your area.

Contingency - This allows you to back out of the deal gracefully if you later decide not to buy. It can be for any reason. For example, you might insert a clause stating that the purchase is subject to your realizing a certain amount of money you are anticipating from a stock sale. If the cash doesn't materialize, there is no deal.

Be aware that contingencies weaken your offer. Sellers, understandably, are less likely to accept a deal with them in it; they realize the clause makes it easy for the buyer to 'escape' without penalty.

Final Walk-through Clause - This lets you examine the property one last time just before the deal closes to be sure the home is just the way it was when you first made your offer.

In a hot real estate market, there will be multiple offers and it may be difficult to determine how high to bid. Put yourself in good position by making a clean offer without too many contingencies. You can limit the various protective clauses that can be included in a purchase offer by planning ahead. Getting pre-approved so you know what financing is available to you, having the cash on hand, and being sure that you've cleaned up any credit problems, will let you go forward more confidently. Other things that can help your bid are offering to close early and talking to the owners to establish a rapport. A personal connection may put you over the top in a bidding war.

How Financing Can Affect Your Offer

Most buyers do not have enough cash available to buy a home, so they need to obtain a mortgage to finance the purchase. Since you will probably make your purchase contingent upon obtaining a mortgage, the seller has the right to be informed of your financing plans in order to evaluate them. That is one of the major reasons that financing details are included in your offer

Down Payment - As part of your offer, you will need to disclose the size of your down payment. Once again, this allows the seller to evaluate your likelihood of obtaining a home loan. It is easier to get approved for a mortgage when you make a larger down payment. The underwriting guidelines are less strict.

Interest Rate - Another reason for including financing information in your offer is to protect yourself. If interest rates suddenly become volatile and rise quickly, as sometimes happens, you may be looking at a mortgage payment much higher than you anticipated. By putting a maximum acceptable interest rate in the offer, you are protecting yourself from such an occurrence.

At the same time, the seller will probably want to see that you have some flexibility in the financing terms you are willing to accept. If interest rates are currently at eight percent and you indicate this is the highest rate you will accept, you would be able to cancel the contract without penalty if interest rates rose past that point. The seller would suffer because they have lost valuable marketing time and may have made their own plans based on successfully closing the transaction.

Asking for Closing Costs and Financing Incentives - There may be times when, as part of your offer, you request the seller to pay all or a portion of your closing costs, or provide some other financial incentive. One common request is asking the seller to provide funds to temporarily buy down your interest rate for the first year or two. Such incentives can be especially effective if a buyer is tight on money or pushing their qualifying ratios to the limit.

Whenever you ask for incentives such as these, you will probably find the seller less willing to negotiate on price. After all, what you are really asking for is have the seller to give you some money to help you buy their house. The end result is that, for a little relief in the beginning, you are willing to pay a little more in the long run.

Seller Financing - Another occasional request is to have the seller 'carry back' a second mortgage to help facilitate your purchase of their home. In cases when the seller does not need all the proceeds from their sale in order to purchase their next home, this is an option. The advantage to the buyer is that by combining your down payment and the second mortgage from the seller, you may be able to avoid paying mortgage insurance and save yourself some money.

If such a carry-back is part of your offer, you should include the terms you wish to pay on such a second mortgage. Keep in mind that your first trust deed lender needs to know this information so they can underwrite your loan, and they have certain minimum requirements. The minimum term of the second mortgage can be five years. The minimum payment can be 'interest only.' Longer mortgage terms and payments that also include principle are also acceptable.

Cash Offers - If you are one of those rare individuals making an offer of cash to buy a home, it makes sense to provide some documentation with your offer that shows you have the funds available. A bank statement would be fine. If you have to liquidate stock or some other asset, your offer should give a timetable on when you will provide proof you have converted the asset to cash.

Other Financing Details in Your Offer - Your offer should also contain information on whether you are obtaining a fixed rate or an adjustable rate mortgage. It should also state whether you are obtaining conventional financing or obtaining a VA or FHA loan.

Attention to Details

A written and signed (ratified) purchase offer can bind both you and the seller. Whether it's called a contract-to-purchase, an offer, binder, or earnest-money agreement, you can be held to your offer once the seller signs it. If you leave anything out and the seller accepts and signs the contract, you're out of luck. That's why your purchase offer must cover every minute detail and aspect of the sale. Earlier, we discussed what goes into an offer. This section reiterates that and offers everything that should be considered when entering into a binding agreement. The following should be carefully considered:

- * The date and amount of deposit or earnest money.
- * Your name as buyer and the property owner's name as seller.
- * The total purchase price.
- * Full legal description and street address of the property.
- * The lawyers, brokers and others involved in the sale, as well as the terms and conditions of their

compensation.

The options available to both buyer and seller should either party default: Your offer contract should also contain important protective and escape clauses making the entire agreement subject to, or contingent on, their fulfillment. Here are some key 'subject to' clauses and useful contingencies to think about:

Earnest money - Ensure that your earnest money will be deposited in a trust account or with a neutral third party, such as a title company, escrow service or attorney acting as an escrow agent. If you're putting up a large earnest-money payment, stipulate that it can be held in an interest-bearing account and that interest earned will be credited to your side of the ledger at settlement.

Returning earnest money - Set out any conditions for return of your money, including how quickly you'll get it back if the offer expires or you withdraw it, or if for some reason the seller decides not to sell.

Deed and title condition - Your offer should state the type of deed and condition of title you'll accept from the seller. Your contract should also make clear what actions the seller must take to deliver a good title by settlement, and what recourse you have should that not occur.

Financing - Make your offer contingent on getting a written loan commitment within a specified time and at terms agreeable to you.

Seller financing - The terms and conditions of any seller financing should be fully and exactly set out in the contract.

Settlement date and possession - The sale should be made subject to a settlement date and when you will be entitled to take physical possession of your new home. Settlement usually correlates with the length of time that's required for a title search and mortgage approval - typically 45 days to 60 days. Possession usually occurs immediately after settlement.

Settlement agent - The contract usually specifies the attorney or title company that will perform final settlement services.

Prorating - The contract should state that property taxes (among other things) will be prorated to the closing date.

Sale of current residence - If your purchase of this house is contingent on the sale of another, this should be carefully stated.

Response time limit - Your contract should require the seller to accept the offer in writing within a certain time - usually no more than 48 hours - or the offer will be void.

Home inspection - This contingency clause gives you the right to have the property inspected and to withdraw your offer if the inspection report isn't satisfactory to you for any reason. It may also allow for price adjustments to pay for any necessary repairs.

Environmental tests - You may want to include a clause requiring that the property be tested for radon, lead paint, asbestos, or urea formaldehyde insulation.

Termite inspection - Many contracts require the seller to order and pay for a termite inspection. If yours doesn't, insert language to that effect.

What goes with the house - Specify what furnishings - such as curtains, rugs, chandelier, and so on - are included in the sale.

Condition of house at settlement - Specify what must be in demonstrable working order at the time of settlement, as verified during a walk-through of the premises a day or so before settlement.

Other conditions - The list could go on, but every additional condition runs the risk of making your offer more complicated and less appealing.

Closing

Closing is the term used to sum up the final process of property being transferred from seller to buyer. This process is also called 'in escrow'. This refers to the escrow company that handles the general accounting of things at the end of the sale to make sure it is settled equitably. This may be settlement of taxes, utilities, repairs, etc. Escrow is a neutral third party, a stake holder, who is set up to hold documents and approvals as they are gathered and to disperse the mortgage, once it funds. In some areas of the country an attorney may act as the escrow holder although in most areas a corporation acts as escrow.

You will have filled out a purchase contract, usually with your agent, that includes all the terms of the deal, from the address, price, terms, contingencies, closing date, what fixtures stay, title transfer. This is a legally binding document that should be prepared with care.

The closing date is a mutually agreed upon day generally two weeks to 90 days after your offer is accepted when ownership officially changes hands.

On closing day the mortgage begins and the down payment and closing costs are paid, final documents are signed, and the deed goes to the courthouse in the buyer's name. 'Closing' is when the buyer officially owns the house; 'possession' is when the buyer moves in.

The Contract is Accepted

Once your contract is accepted the clock starts ticking. Under specific deadlines you must have the home appraised and inspected and the seller must complete any necessary repairs. You'll be looking at the seller's disclosure statements, you'll be giving approvals to such things as the seller's disclosures, and you'll be attempting to get funding for your mortgage. This whole process is sometimes called, 'closing escrow.'

Be Advised! If you change your mind and want to back out of the deal after your contract offer has been accepted and signed by the seller, you stand the chance of losing your deposit and you could even be liable for damages for failing to live up to your contract. Likewise, if the seller backs out, you can sue for damages or try to enforce the contract terms.

Be ready for minor problems and delays -they are almost inevitable. On the seller's side, title problems are a common cause of postponed settlements. On your side, bureaucratic snags such as income verification can bog things down.

Should you run into problems that prevent you from being ready to close, have your REALTOR® contact the seller immediately to work out an extension. You shouldn't be penalized if the problem is one you couldn't have anticipated.

While you're waiting for completion of all the processes now in motion, you should do the following:

Decide how you want to take title to the house your name alone, joint ownership with a spouse or through a limited partnership.

Apply for homeowners insurance.

Get an exact accounting of settlement costs - and make sure the money and necessary documents will be there at closing.

Select a date for the walk-through of the house. You may wish to have a walk-through two weeks or so before you intend to close if you expect work will need to be done by the owner. Then a final inspection can be made just prior to settlement

Contact the utility companies about establishing service in your name. Arrange for electricity, gas, water to be turned on in your name on the day of settlement so that there will be no interruption in service. Make these arrangements a few weeks in advance, since utility companies may require deposits, credit checks and advance notice.

Make a Home-Buying File:

Organize all the documents associated with the transaction in one place. Your home-buying file should include the purchase agreement, the title, loan records, closing data, inspection reports, insurance forms, and tax records. This small step can save big headaches come tax time or the day you re-finance or sell your home.

What if the Inspection Reveals Defects?

Typically your professional inspection will occur after you have a fully signed sales agreement and escrow has been opened. If the inspection reveals significant defects (such as a leaky roof, broken heater/air conditioner and so on), the wording of the agreement should allow you to withdraw from the sale without penalty, or to reopen negotiations. (Have your attorney check to see that the proper language is used at the time you make your offer.)

If a defect is found, normally you may:

Back out of the deal;

Demand that the seller fix the problem; or

Demand that the seller compensate you by lowering the price.

If the seller agrees to fix the problem, you would be wise to insist that the fix be done by a professional. Many times sellers will attempt fixing plumbing, electrical, structural or other work themselves and come up with a botched job.

If you agree to accept monetary compensation, be sure it's enough to allow you to fix the problem after the sale has been completed. Get several estimates of the cost of repairs before deciding on a price.

Removing Contingencies

The next issue at hand would be the contingencies that you and the seller have agreed upon. Removing the contingencies can take one of two forms,

depending on how your offer was written. You may be required to either give written approval, or, your approval may be assumed if you fail to give written disapproval.

The contingencies to be removed may include:

Removing The Disclosure Contingency. In most states the seller is required to disclose to you any defects in the property. If you approve the disclosures, the sales process moves forward. If you disapprove, usually the deal collapses.

Removing The Inspection Contingency. If you wisely included this clause in your purchase agreement, you will have a period of time, typically a couple of weeks, to locate a professional home inspector, have the property inspected and then approve the written report. If you don't approve the report, then either the sale falls through or you renegotiate with the seller over fixing the problem(s) identified in the report.

Removing The Termite And Other Inspection Contingencies - Normally the home must pass a termite inspection in order for your loan to get funded. There may be other inspection contingencies as well, covering such things as lead, asbestos, radon and other issues. You usually will be required to approve these reports for the escrow to move forward. Some areas do not require a termite inspection. Your real estate professional will guide you in this area.

Remember, the finance contingency is your major protection against being forced to proceed without a loan; removing it could mean losing your deposit and, potentially, getting involved in legal entanglements with a seller. You are cautioned not to remove the finance contingency unless you are totally sure your loan will fund.

The Final Walk-through. A day or two before escrow closes, you will be asked to remove your final walk-through contingency. In this case, you will be given the opportunity to see the property again. If it's as it was originally, you'll remove this contingency. If not, you will need to negotiate over any problems with your agent and the seller.

The Final Process

After all of your contingencies have been removed, the lender is ready to fund and the sellers have provided clear title, you'll be asked to bring in the remainder of the down payment (the part that's in addition to the deposit you gave) and the closing costs. You'll also be asked to sign all the paperwork.

The loan documents you will be asked to sign will often be in excess as much as seventy-five pages long and can be quite complex. You should have your agent and/or your attorney present to answer any questions you may have.

There will also be the costs to you for escrow and title insurance. You may find that you are charged for two escrows - one for the home and the other for the lender. There may also be an additional title insurance charge for the American Land Title Association (ALTA), which the lender may require. You should check to see that these costs are as agreed upon when escrow was opened.

After all documents are signed, there may be a day or two delay until title is actually recorded in your name. After title has recorded and all the

documents are signed and initialed, you will usually be given the key to the home. It's finally yours! Congratulations.