SELLING SACRAMENTO

CLUB 100

HOME BUYER'S HANDBOOK

Courtesy of

Mathews & Co. Realty Group

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Our Vision Statement

At Sac Club 100, our vision is simple yet powerful: Making homeownership achievable for all, regardless of background or budget. We are a collaborative team of high-performing real estate brokers, agents, and lenders from various companies, united by our commitment to empower historically disadvantaged individuals through tailored support and education.

Our Mission Statement

Our mission at Sac Club 100 is to break down the barriers to homeownership and foster inclusivity. We bring together a dynamic team of top real estate professionals and lenders to serve clients at every price point, with a special focus on those who need extra guidance and resources.

Our Chief Aim

To empower Sacramentans to become homeowners using an exclusive five-star model approach to BUILD YOU UP which guides buyers every step of the way in realizing their dream of home ownership.

Our Professional Relationship

AN OVERVIEW OF OUR PARTNERSHIP

A buyer's agent represents the consumer who is purchasing the property in the real estate transaction, not the seller. The buyer's agent works directly for the buyer and has their client's best interests in mind through the entire transaction.

Our Commitment to You – We are full-time, real estate professionals, educated in the legal aspects of real estate practice and licensed by the State of California to provide real estate services. We abide by a strict Code of Ethics to provide you with the highest level of service. We commit to serving you with integrity, respect, and confidentiality.

Skilled Service – A large part of our work is performed "behind the scenes": previewing homes, coordinating previews with homeowners or agents, researching comparable sales, gaining market knowledge, researching trends, evaluating changing legislation and maintaining our professional credentials. For every hour we spend showing you homes, we will spend numerous hours in preparation. We constantly acquire information that will help us to better serve you.

How We Are Compensated – As part of our commitment to clarity and professionalism, we want to explain our compensation process:

1. Your Agreement: At the beginning of our working relationship, you will sign the C.A.R. form CA, a commission agreement form. This form is standard in California real estate and outlines the terms of our compensation. Importantly, this form is your promise that our payment will come from the funds set aside in your property transaction, ensuring a clear understanding of the financial aspects from the outset.

2. Upon Transaction Completion: We receive our compensation when you accept an offer for a property by the specified deadline. The timing of payment depends on the type of transaction: for purchases, it's upon the recording of the deed; for leases, upon the execution of the lease; and for options, upon the execution of the option agreement.

3. In the Event of Principal's Default: If the transaction fails due to your default, our compensation is payable at the time of such default.

4. Default by Another Party: Should the transaction not complete due to the fault of a party other than you, our payment is contingent on you successfully recovering damages, whether through legal action, settlement, or other means. Our compensation in such cases will be the lesser of half the damages you recover or our initially agreed fee, minus any title, escrow, and collection expenses.

5. Cooperation with Other Brokers: In the real estate industry, collaboration is common. We may share our compensation with other brokers who assist in the transaction, as per our discretion.

We adhere to the highest standards of transparency and professionalism. Our fees are not fixed by law but are agreed upon with our clients to ensure fairness for all parties involved. Our primary goal is to assist you in realizing your real estate goals with integrity and expert guidance.

A Few of Our Services We Offer for Buyers

Provide credit restoration resources
A good credit score increases the likelihood of qualifying for a mortgage because it indicates to the lender that you're more likely to make timely payments on your loan. Even better, a solid credit score gives you, the potential borrower, a better chance at a lower interest rate.

Provide Down Payment Assistance (DPA) resources & options
Worried that you can't afford a down payment on a home? Here's some good news: If you're a first-time home buyer, you might qualify for down payment assistance provided through a government agency or private organization.

Connect you with a reputable and experienced lender and real estate professional
Why is it important to have a good lender and agent?

The stronger your relationship is with your lender, the better they will be able to understand your business when you come to them for advice and solutions to help it grow. The key to creating a solid relationship with your lender is to begin long before you apply for a loan.

Your agent can help negotiate the sale or point out things with the home that could be potentially be problematic down the road. You want someone that is working for you and looks out for your best interest. An agent can help you from being exposed to property that's not right for you.

Educate you about current market conditions
Market conditions is a term that refers to the state of an industry or economy. The term is commonly used in reference to stock and real estate markets, which are often described as being volatile or stable. These conditions are an indicator used by many to influence their decisions.

Conduct a daily search for appropriate properties | MetroList® (MLS)
MetroList® is the largest Northern California Multiple Listing Service (MLS) that provides real estate professionals with detailed and accurate listing data, the most advanced technology, and first-in-class service to ensure you have the best information available when making decisions to sell or purchase real estate.

Schedule immediate showings of selected properties
When you find a home, you can see yourself living in you don't want to delay in viewing it. If you like it, someone else may love it. Let's see it sooner rather than later.

Provide market education & property selection assistance
We will research available properties and show you homes based on the criteria that we establish. As we view different homes, we will reassess your criteria. The more precise and direct you are, the more successful our search will be.

Provide experienced counsel & assist in structuring an effective offer
Once you have found the home that you wish to purchase, we will do all necessary research to help you structure an effective offer. We will provide you with comparables in the neighborhood and/or surrounding areas. This will show you what properties are selling to give you a better understanding of the offer price. We will write the purchase agreement, and we will advise you on protective contingencies, customary practices, and local regulations.

Provide you with a list of qualified licensed inspectors
Once your offer is accepted, we will handle all of the contractual processing including inspections, which we highly recommend. You may use any licensed and certified inspector you prefer, or you

may select from our list of preferred vendors. Our list is not mandatory to use but is a resource list for your convenience. If you do not have a preference, we handle selection and coordination for you. Just let us know your preference.

Negotiate expertly on your behalf throughout the transaction
In the home-buying process, the buyer agent handles the negotiation and presentation of the offer to the seller on behalf of the buyer. This is something that buyers can't do on their own. Negotiating requires extensive knowledge and other skills gained from experience over a period. To negotiate effectively, the agent should also have a clear understanding of the buyer's needs and preferences.

Help you visualize cosmetic improvements
The home you love not quite what it could be? We have an extensive list of specialists (painters, flooring, stagers, handymen, inspectors, electricians, plumbers, contractors, architects, etc.) who are dedicated to their crafts and can assist you in bringing your vision for your home to fruition.

Post Closing Services
Once your transaction has closed, we will provide you with all of the document history of your transaction history with access to an online cloud storage which will house the information for years to come. And our service doesn't end there. We are here for you, even after it's done.

The Home Buying Process Overview

WHAT TO EXPECT WHEN YOU ARE BUYING A HOME

Loan Consultation – We will provide you with guidance in finding a financial institution and support you in obtaining information on available financing options. A licensed loan consultant can help you determine a realistic range of affordability and can provide you with a letter of pre-approval.

Evaluate Your Needs – We will meet with you to discuss your specific needs in a home and analyze your resources. We will establish a set of criteria about the type of home and features that are most important to you.

Market Education, View Properties, and Select a Property – We will research available properties and show you homes based on the criteria that we establish. As we view different homes, we will reassess your criteria. The more precise and direct you are, the more successful our search will be.

Structure an Effective Offer – Once you have found the home that you wish to purchase, we will do all necessary research to help you structure an effective offer. We will provide you with comparables in the neighborhood and/or surrounding areas. This will show you what properties are selling for to give you a better understanding of the offer price. We will write the purchase agreement, and we will advise you on protective contingencies, customary practices, and local regulations.

Present Your Offer – Your offer will be presented to the seller's agent. The seller has four options – to not respond at all, accept, reject, or counter. Our personal knowledge of your needs and qualifications will enable us to present your offer in the best light.

Respond to the Seller – We will review the seller's response. If the seller has countered your offer, you will have the option to accept, reject, or counter. Our negotiating skills will benefit you in reaching a satisfactory agreement.

Open Your Escrow – When the purchase agreement is accepted and signed by all parties, you have a legally binding contract. Escrow will be opened, and contractual timeframes begin. Escrow is the "clearing house" which ensures all parties follow the terms and timeframes of the contract. Escrow also receives, holds, and distributes all funds associated with your transaction. During escrow, time is of the essence. From the date the offer is accepted, and escrow is opened, we will have:

1. Three days to get your earnest money deposit (EMD) to title
2. Seven days for Seller to provide Buyer with all disclosures

3. Seventeen days for Buyer to complete inspections (There are approx. costs involved, we will provide you a list of referrals from which you may choose but are not required to use who we recommend):
    a. Home Inspection
    b. Pest Inspection
    c. Roof Inspection
    d. Sewer Inspection (esp. if trees are in close proximity to the subject property)
    e. Any other inspections, all up to the Buyer
4. Twenty-one days for the Buyer to get full loan approval

Remove Contingencies – Prior to closing, all contingencies of the Purchase Agreement must be met, typically within 21 days from the acceptance of contract. We will coordinate the removal of these contingencies and review all documents with you. Typical contingencies include:

- Approval of the seller's reports and disclosures (17 days): Documents the seller provides to disclose defects, recent repairs, and all material facts about their home.

- Approval of the preliminary title report (17 days): This will show if anyone other than the seller has a legal claim on the property, including any taxes, liens, and encumbrances.

- Loan approval, including an appraisal of the property (21 days)

- Buyer's Investigations/Inspections (17 days)

Close Escrow – When all conditions of the purchase agreement have been met, you will sign your loan documents and closing papers. You will deposit the balance of your down payment and closing costs to escrow, and your lender will deposit the balance of the purchase price. The deed will then be recorded at the County Recorder's office, and you will take ownership of your new home.

The Loan Process | A GENERAL GUIDE

Choosing a Mortgage Lender: As your real estate agent, we can assist you in selecting a suitable mortgage lender. Once you've made your choice, the following steps outline the loan process:

Application Process: Initially, you'll meet with your lender or mortgage broker to fill out a mortgage application. You'll need to provide documentation verifying your income and assets. During this meeting, various fees, down payment requirements, estimated housing expenses, and closing costs will be discussed.

Mortgage Preapproval: The lender reviews your income, assets, and credit history to determine your mortgage eligibility and issues a preapproval letter. Understanding your mortgage limit early in the process is crucial.

Escrow Process: After your home purchase offer is accepted, the escrow process starts. The lender orders an appraisal to confirm the home's value, issues a preliminary title report, and gathers other necessary documents. As these come in, they're reviewed for accuracy, and additional documentation may be requested. Note that credit report and appraisal fees are often payable at the time of service.

Loan Submission: Once all required documentation is collected, the loan processor compiles the loan package. Your loan agent prepares a cover letter, and the complete file is submitted to a lender for approval.

Loan Approval (Underwriting): The underwriting process typically takes 24 to 72 hours and may extend if mortgage insurance is required. Mortgage insurance underwriting is needed when the down payment is less than 20% of the loan amount. Upon approval, all parties are notified of any conditions that must be met before closing the loan.

Documents Preparation: Within one to three days after loan approval, the lender prepares the loan documents, including the note and deed of trust, and sends them to the title or escrow company. You will be called for an appointment to sign these documents. At this time, you'll be informed of the amount you need to bring to close escrow, usually in the form of a certified check, cashier's check, or money order.

Funding: After all parties have signed the loan documents, they are returned to the lender for a final review. Once verified, the lender transfers the loan funds.

Recording and Closing: The title company, upon receiving the funds, authorizes the recording of the signed documents with the County Recorder’s office. A final settlement statement is prepared, funds are disbursed to the seller, and other obligations are paid. The day the property officially changes possession is known as closing day.

This process is designed to be thorough and systematic to ensure that all aspects of the loan and home purchase are properly managed and executed.

Questions to Ask Your Lender Before Buying

1. What information will you need from me?
2. What mortgage types do you offer?
3. What mortgage is the best fit for me and why? Different mortgage lenders offer different types of mortgages. These loans can differ in the amount offered, interest rates, length, and payment type.

   Common mortgage types include the following:
   a. Conventional
   b. Federal Housing Authority (FHA) mortgages
   c. Veterans Affairs (VA) mortgages
   d. Fixed-Rate Mortgages (FRMs)
   e. Adjustable-Rate Mortgages (ARMs)
   f. Interest-only mortgages
   g. Reverse mortgages
   h. Jumbo Loans

4. What is the full cost of each loan?
5. How long will it take you to process my loan?
6. What can I do to avoid slowing down the process?
   They should give you a list of items such as:
   a. Fully complete all required documents.
   b. Be readily available to answer any questions.
   c. Be prepared to explain any past credit issues
   d. Go over your credit report for errors.
   e. Do not take on any new debts, switch jobs or change careers during the process.

Other questions to ask:____

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Checklist for Loan Application

Be prepared to provide the following information to your lender.

Property Information

- Copy of the purchase contract (If/when applicable/available)
- Property address and property description
- Contact information for access to the property (for appraisal)

Personal Information

- Social security number
- Marital status
- Number and age of dependents
- Current address and telephone numbers
- Addresses for the past seven years (if more than one)
- Current housing expenses (rent, mortgage, insurance, taxes)
- Name and address of landlord/mortgage holder (past two years only)

Employment history and income

- Two years of employment history, with complete details of each position
- Recent pay stubs and two years of W-2 forms
- Tax returns and financial statements if self-employed
- Records of dividend and interest received
- Proof of other income

Assets

- Information about all bank and money market accounts
- Two months of bank statements
- Current values of stocks, bonds, mutual funds and other investments
- Vested interest in retirement funds
- Value of life insurance
- Information about any cars you own
- Information about any real estate you own
- Value of any significant property you own

Liabilities and debts

- Itemized list of all current debts: loan and credit cards and other bills
- Written explanation of any past credit problems
- Full details of bankruptcy during the last seven years, if possible

Do's & Don'ts During the Loan Process

- **DO NOT make any major purchases until *after* escrow closes.** Often, people decide to buy new items for their new home. New purchases may affect your credit score and debt ratios and may directly reduce the amount of a home loan for which you qualify.

- **DO NOT run your own credit score prior to applying for a loan.** Running your credit score too often within a certain period may cause credit scores to fall. Your lender will run your credit. Ask them to provide a copy of your credit report and review it with you as part of the application process.

- **DO NOT apply for any other credit.** Do not apply for a new credit card, major retailer credit card, line of credit or any other credit related account of any kind. Even if you do not plan to use it until ***after*** you are in your new home, it will affect your credit ***now.***

- **DO NOT continue to shop your loan.** Once you are pre-approved, do not shop your loan. Conduct enough research ***before*** you take the pre-approval step. Every time you shop your loan with a lender, your credit scores are run. The more times your credit is run, the more your scores are lowered. It is possible that they may be lowered to the point where you no longer qualify for your pre-approved loan package.

- **DO NOT make large deposits that cannot be documented.**

- **DO NOT pay any judgments/collections unless instructed by lender.** You may have a judgment, collection or lien on your credit and want to pay it off. ***Do not*** do this, unless instructed by the lender. Before you buy or pay on anything while in a transaction, take the time to call your lender.

- **DO NOT change loan companies once you are in escrow.** Once you are in escrow, the timing of everything becomes very critical. For this reason, you must not change loan companies. In doing so, you could seriously jeopardize your transaction. If the time periods for removing contingencies are not kept, the seller has the right to cancel the contract and put the home back on the market. If this happens, you stand a chance of losing any monies you have paid for inspections, appraisals, etc.

- **DO NOT co-sign for anyone.** Co-signing while you are in escrow will change your debt to income ratio and, ultimately, your loan to value ratio. This has a direct impact on your loan amount, interest rate, and mortgage payment. Consequently, you may not qualify for the loan you were originally approved for.

- **DO NOT purchase a home with excessive health and safety issues unless you are willing to make repairs prior to close.**

- **DO inform your real estate agent if you are connected in any way to a short sale or foreclosure.** If you are renting a home in foreclosure, if your spouse or even ex-spouse had a foreclosure during marriage, or if you are taking a mortgage interest deduction on a home that is pending foreclosure, inform your agent.

- **DO inform your real estate agent of ANY changes.** This can be in employment, income, assets, credit cards, or loans. You should have the same job when they verify employment on funding day as you did when you submitted the original loan documentation.
- **DO continue to make all your debt payments on time.**
- **DO inform your real estate agent of any student loans that have been deferred but are due within the next three years.** These need to be counted against your debt to income ratio.
- **DO document all gift funds.** You must show paperwork of money coming into and out of the source of funds account. The source of funds account cannot have any big deposits unless the source can be verified. The funds cannot be borrowed. If you can, deposit all gift funds as soon as possible, so that they can be seasoned in two months.
- **DO check your lender's truth-in-lending statement.** Make sure you get a copy of the Truth-In-Lending statement from your lender. Read it carefully and ensure that you understand it.
- **DO inform the person making payments to keep paying on time until closing, if you are a co-signer.**

Components of a Mortgage Payment

When you're ready to buy a home, understanding the components of a mortgage is crucial. A mortgage is more than just a loan; it's a financial commitment that includes several key elements:

Principal: This is the amount you borrow to purchase your home. It represents the base amount of your loan, excluding interest.

Interest: Interest is the cost you pay to borrow money, usually expressed as a percentage of the principal. It's essentially the fee charged by the lender for using their money to buy a home.

Taxes: Property taxes are often included in mortgage payments. These are local taxes used to fund various services in your community, such as schools, roads, and public works.

Insurance: Homeowner’s insurance is a requirement for most mortgages. This insurance covers potential damage to your home and protects both you and the lender. In some cases, if your home is in a designated flood zone, you may also be required to have flood insurance.

Private Mortgage Insurance (PMI): If your down payment is less than 20% of the home’s value, lenders usually require PMI. This insurance protects the lender in case you default on your loan.

Escrow: Many lenders include an escrow account in your mortgage. This account is used to pay your property taxes, homeowner’s insurance, and possibly other expenses as they come due. Money is added to this account as part of your monthly mortgage payment.

Understanding these components is key to planning your finances and choosing the right mortgage for your situation. Remember, the terms and rates of these components can vary, so it's important to discuss them with your lender to fully understand your mortgage agreement.

The Inspection Process

While property inspections provide no guarantee, they will educate you as to the condition of a property. Inspections are usually requested on the Purchase Contract, and if inspection results are unsatisfactory, or an agreement cannot be reached as to who will pay for any necessary repairs, you have the option to withdraw your offer and/or cancel your contract.

In addition to the professional inspections listed below, you should take a close look at the property yourself. For example, inspect cupboards, doors, windows, flooring, counter tops, bath and kitchen fixtures, built-in appliances, stairways, and banisters.

Most Common Inspections:

Home Inspection – Done by a certified General Home Inspector, a home inspection is a thorough inspection of the house. This inspection results in an overall assessment of the present condition of the property. It gives you a clearer picture of the home's condition, as well as any potential repairs that might be needed.

If conditions warrant, the Home Inspector may recommend additional, more thorough inspections such as roof, HVAC, pool, chimney, etc.

Pest Inspection – A pest inspection includes a search for bugs and other creatures that can cause damage to the structure of your property, a health hazard or both. It will also indicate any type of wood destroying organisms that may be present. This includes termites, fungus, dry rot, etc.

Roof Inspection - The purpose of roof inspections is to find any problems as well as gauge the remaining life of a roof.

Sewer Inspection - Video sewer inspections offer invaluable sight into the sewer systems for residential, commercial, and municipal sewer lines. They can help both homeowners and property owners find sewer damage and the exact cause before it becomes a major, expensive repair.

The Escrow Process

Escrow is a neutral, legal mechanism used in real estate transactions, bridging the period from when a purchase agreement is ratified until the title transfer and sale completion. It's managed by a title company, which acts as a neutral agent and liaison among all parties.

Key Responsibilities of Escrow Holder:

- Preparing escrow instructions and initiating a Preliminary Title Search to assess the title's status.
- Complying with the lender's requirements as outlined in the escrow instructions.
- Managing purchase funds from the buyer and organizing necessary deeds and documents.
- Prorating applicable taxes, interest, insurance, and rents.
- Ensuring all contingencies and required documents are in place and met.
- Coordinating the closing process as per instructions from the seller, buyer, and lender, and managing the disbursement of funds including payments for title insurance, recording fees, and real estate commissions.

Opening of Escrow: This typically occurs by the first business day after mutual acceptance of the purchase agreement. The buyer's Earnest Money Deposit (EMD), usually about 1% of the purchase price, is then deposited into the escrow account.

Earnest Money Deposit (EMD): This deposit, accompanying an offer, signifies the buyer's seriousness. It's usually refundable within the allocated contingency periods but may be forfeited under certain conditions, like if the buyer cancels the contract after contingencies have been satisfied.

Escrow Officer's Role: As a neutral party, the escrow officer follows specific instructions from both buyer's and seller's agents to transfer the title and disburse funds. Both parties' instructions must align for the escrow to proceed.

Duration and Closing: The length of escrow varies, often closing within an average of 30 days.

Preliminary Title Report: The title company examines public records for ownership, liens, easements, and other factors that might impact the title transfer. Resolving any issues found is essential during the escrow period.

Title Insurance: This safeguards against losses from title problems like forgeries or errors in public records. It's a one-time fee covering the buyer as long as they own the property. Different policies protect the lender's and buyer's interests, addressing issues such as forgery, legal document errors, or recording mistakes.

In essence, the escrow and title process in real estate transactions ensures a secure and orderly transfer of property ownership, safeguarding the interests of all parties involved.

Who Pays for What?

CUSTOMARY FEES

In most areas in California, the buyer pays:
escrow fees (50/50 split)
title insurance fees (for 2 policies protecting the interests of themselves and their lender)
loan origination fee and discount points
miscellaneous doc drawing and courier fees
inspection and appraisal fees
loan closing costs, like prepayments of property taxes, interest, insurance and homeowner's insurance or HOA dues, when the buyer is obtaining a loan with an impound account or as otherwise required by the buyer's lender.

And the seller pays:
escrow fees (50/50 split)
a re-conveyance fee to their lender
buyers home warranty (negotiable)

HOWEVER - ***ALL of this is open to negotiation***. These are standard practices but vary depending upon the market climate.

Also, be aware that with bank-owned properties the standard allocations are somewhat different. For example, banks often will pay for the buyer's title insurance policy, assuming the buyer uses a title provider the bank chooses.

Also, costs like HOA transfer and documentation fees, city and county transfer taxes, and even escrow fees are often negotiated between buyer and seller. Additionally, many times buyers agree to "pay" their customarily allocated fees, but then negotiate a closing cost credit from the seller that covers some or all of that.

Loan closing fees vary significantly by loan type (i.e., FHA vs. conventional). Also, transfer taxes also vary widely in different California counties: I’ve seen transactions where buyers need to be prepared to pay anywhere from 2 to 3% of the purchase price in closing costs - depending on the location. Again, this can be reduced if the buyer is able to negotiate for the seller to pay some or all their closing costs.

What Can I Expect to Pay?

During the home buying process, you can expect four main instances where out-of-pocket expenses will occur:

1. Down Payment: This is the initial payment made when buying a home, and it can be sourced from your savings, a down payment assistance program, or as a gift from family or friends. Note that gift funds often have specific guidelines set by lenders. The down payment is subtracted from the purchase price to determine the loan amount. For instance, with a $400,000 purchase price and a $20,000 down payment, you would finance the remaining $380,000.

2. Earnest Money Deposit (EMD): This shows the seller your commitment to the purchase. Typically set at 1% of the home's purchase price, the EMD is deposited within the first three days of opening escrow. It’s crucial to have these funds readily available in your account, as they are quickly processed into an escrow account. For a $400,000 home, the EMD would be about $4,000.

3. Appraisal and Inspection Fees: Conducted by your lender, the appraisal typically costs between $500 and $600. Inspections, managed by your agent, can range from $800 to $1,000, depending on the home’s size. Recommended inspections include home, pest, and roof inspections, with additional ones like sewer line and chimney inspections as needed. The exact requirements will vary, and your agent will guide you through the decision-making process to suit your needs and budget.

4. Closing Costs: These costs encompass loan fees, title and escrow fees, and other negotiated items. A general estimate is about 2% to 3% of the purchase price. For example, closing costs for a $300,000 home could be around $9,000. Sometimes, you can negotiate with the seller to cover some or all of these costs during the offer process. While sellers are not obligated to agree, even partial coverage can be beneficial.

Each of these expenses plays a crucial role in the home buying process and understanding them will help you budget and plan accordingly.

Overview of Closing Costs

When finalizing your home purchase, you'll encounter various closing costs in addition to the principal, interest, taxes, homeowner's insurance, private mortgage insurance, and title insurance. These costs are part of the final settlement:

1. Appraisal Fee: This one-time fee covers the cost of appraising the property to determine its value for the lender.

2. Credit Report Fee: A fee charged for obtaining your credit report.

3. Home Warranty Plan Fee: This covers the cost of a plan that protects against failures of the home's mechanical systems and includes evaluations of the structure and systems.

4. Inspection Fees: These are associated with various inspection reports, such as home, termite/pest, roof, and chimney inspections.

5. Loan Discount/Points: This is an amount usually equal to one percent of the principal loan amount. It's charged by lenders at closing to adjust the loan's yield to a competitive market level.

6. Loan Origination Fee: A fee charged for processing the mortgage loan application. This fee is typically capped at one percent for FHA and VA loans.

7. Notary Fees: State-regulated fees for notary services, often set at $10 per signature.

8. Transfer and Assumption Charges: Fees charged by lenders for allowing a new buyer to assume an existing loan.

9. Recording Fees: Charged by the county recorder's office for recording the real estate transaction documents.

Understanding these fees can help you better prepare for the financial aspects of closing your home purchase.

New Homes

There are many benefits to working with a licensed real estate professional on a new home transaction. If you are considering buying a new home, here are a few things you need to know:

New homes are more expensive to purchase than resale homes. Resale homes depreciate each year. The actual cost of a home goes down each year because it is getting older. The *property the house is on* appreciates. In contrast, a new home is built at the current market rate for materials, which is always increasing.

New homes are more expensive to move into. The model home you visit is shown with many upgrades. When you purchase a new home, if often does ***not*** include many of these extras. Purchasing a washer, dryer, refrigerator, window coverings and landscaping are added expenses you will incur. These items are included with many resale homes.

For new homes, a buyer must use a seller's preselected Title Company. Under normal circumstances, the buyer and buyer's licensed real estate professional choose the Title Company used in a transaction. Many Realtors prefer this choice, as it means they will work with title officers they know and trust.

New home builders want you to be pre-qualified with their lender, even if you are already pre-qualified with another lender. You have to fill out additional paperwork and take another "hit" on your credit rating. New home builders want control over their buyers. Many builders make deals with specific lenders ahead of time to ensure there are no financing surprises and to get better rates on their construction loans. You may be able to use your own lender, but don't plan on it.

New home builders have very specific rules about you using a licensed real estate professional Most homebuilders will pay a licensed real estate professional a commission only if the Realtor follows their strict rules from the very first visit to the model homes. If you don't follow the rules, you will be on your own, and will not benefit in ***any*** way by having representation.

Using a licensed real estate professional, you have someone representing you. When you buy direct from the builder, you encounter "Dual Agency."   The builder's agent represents both you and the builder. You will not have someone looking out for ***your*** interests. As your licensed real estate professional representative, we attend sales appointments with you, any subsequent meetings, the final walkthrough, and the signing at the Title Company.

We can refer a licensed contractor to do a walkthrough with you. During the walkthrough, the contractor will identify issues of concern that might need attention. Typically, these concerns the builder would otherwise not point out to you. Once these items have been identified, the builder corrects them, and then you can sign the final occupancy release.

You must do the following to qualify for our help with a new home purchase:

- **Your licensed real estate professional must go with you when you visit a new home development.**

  Failure to have your licensed real estate professional with you on that first visit means that you will likely ***not*** be able to have our representation.

- **If you want to visit the models, but your licensed real estate professional is not with you, *do not sign anything*, including the guest book!**

  Sometimes, you can visit the showrooms without signing in. However, the developers want you to sign in to receive brochures, discuss the development or get pricing information. This is information that we can also provide for you. If the office personnel insist that you sign in, tell them you have a REALTOR®, and share your agent's business card. If they tell you that you no longer qualify to have licensed real estate professional representation because your agent is not with you, **do not sign anything**, and simply leave. We will come back with you and will help you sign up properly.

Open Houses

When looking for a home, it is important to visit Open Houses. We are happy to accompany you. However, you may also visit Open Houses without me. But if you do, there are a few things that you should be aware of:

- **REALTORS® hold Open Houses to attract potential clients.**
- **Some buyers visit Open Houses to try to get a deal.**

  Some buyers believe that if they remove their licensed real estate professional from the equation, and deal directly with the listing REALTOR®, they can save money on the sale price of the house or on closing costs. While this may initially seem like a good idea, it has a serious potential downfall. That licensed real estate professional would be representing parties on ***both*** sides of the contract. You need an objective person that will be ***your*** advocate and look out ***only*** for ***your*** best interests.

To avoid potential issues at an Open House:

- **Carry your agent's business card with you.**

  When you enter an Open House, the first person you will typically encounter will be the Listing licensed real estate professional or another licensed real estate professional from the same office. Simply give the licensed real estate professional your agent's business card which lets them know that you have representation.

- **Do not sign anything while visiting an Open House.**

  Most REALTORS® want you to sign an Open House guest book. Some will even state that the homeowner has specifically requested that everyone entering the home "sign in." You may simply decline. If they insist, give your name only. Do not give a phone number, address, email address or any other contact information.

Short Sales

1. **What is a Short Sale?**

A short sale occurs when a homeowner needs to sell their home, but they owe ***more*** on their loan than they will receive from the sale of the home. In other words, they will be "short" on the amount of funds required to pay off the outstanding loan. A short sale requires the lender to agree to the sale of the home at a price lower than the remaining balance on the outstanding loan. In a short sale, the lender becomes a party to the transaction.

2. **What is the difference between a Short Sale and an REO?**

An REO (Real Estate Owned property) is a home that has already gone through the foreclosure process and is owned by the lender or bank. The lender is highly motivated to sell the property as quickly as possible.

A Short Sale, on the other hand, is much more difficult to complete because the lender does not yet have control of the property. Rather than sell the property, the lender often tries to negotiate the loans and terms to keep from having to foreclose or incur a large loss through a short sale. Lenders may refuse to talk to REALTORS® until they are fully convinced that the homeowner's only option is to sell. Usually, the homeowner must stop making payments for the lender to realize that they are serious about selling. <u>*Short sales, because of all of the intricacies involved, can take months to close. If you are in a hurry to get into a home, a short sale is probably not for you.*</u>

3. **What are some typical reasons for a Short Sale?**

Short sales normally occur in a depressed market where home values have dipped below what homeowners originally paid. Reasons for selling are varied, but the most common are that adjustable rates on a loan make the monthly payment unaffordable, loss of income, job transfers, or divorce.

4. **What are potential problems with a Short Sale?**

- Lenders typically do not have a separate department set up to handle short sales. Therefore, you deal with the person working for the lender who currently oversees the loan. They can be difficult to contact. They typically do not have email and are notorious for not returning calls.

- Lenders typically do not want to do a short sale. They want to renegotiate the loan to mitigate their loss.

- In some situations, a short sale will not be allowed by the lender. If a lender feels that the seller's circumstances do not warrant a short sale, or if they do not agree that the seller is undergoing a substantial enough financial hardship, they will not cooperate. A seller is not allowed to short sell just because they want to.

- Everything in a short sale is negotiated by the lender, including the commissions paid to REALTORS®. Some REALTORS®, knowing that they may get a very low commission on a short sale, choose not to show short sale properties to their buyers.

- Many different offers can be submitted to the bank on a short sale. The bank may choose to respond to one and not respond to the others. This leaves a buyer hanging, not knowing if they have a deal or not.

- Once in escrow, the lender does a BPO (Broker's Price Opinion) to appraise the value of the property. Once the current market value is determined, the lender often renegotiates the price back up to market levels. This may cause the deal to fall through. The buyer may not wish to pay the higher price or may no longer qualify to purchase the property. This can cause further delays in an already long process.

- A lender typically will not approve a short sale until the seller stops making their payments. Once payments cease, foreclosure proceedings begin, and a Notice of Default (NOD) is served. There is a limited amount of time in which a short sale can occur before the home is foreclosed.

- Once foreclosure proceedings begin, it is possible to have a short sale negated by an untimely trustee's sale. In this case, not only does the prospective buyer not get the home, but a tremendous amount of time and effort has been wasted. In some cases, money has been spent on inspections, appraisals, etc. This is part of the risk.

5. Short Sales are purchased "As-Is"?

Since the bank sets the terms for the short sale, they will not do any repairs. They will have you sign an “AS-IS” Addendum as a part of the contract. However, on rare occasion when there are catastrophic damages, a lender may issue some credit towards the repairs. You will need to pay for any inspections required, with no guarantee that you will actually end up owning the house***. This is one of the substantial risks associated with short sales.***

6. Banks do not want to issue credits for closing costs.

Banks want to set a price and then proceed with that price. They do not want to issue credits for non-recurring closing costs, repairs, etc. Most important to banks is their bottom line at closing.

7. Short Sales have significant tax and credit implications for the seller.

This does not affect the buyer’s credit or taxes. However, it can slow down the transaction while the sellers work out the details with their accountants, etc.

Understanding REOs and Foreclosures

When exploring the real estate market, you may come across properties listed as REOs or foreclosures. Understanding what these terms mean is crucial for making informed decisions as a buyer.

What is a Foreclosure?

Foreclosure occurs when a homeowner is unable to make mortgage payments, leading the lender to seize and sell the property to recover the owed money. This process typically happens after the homeowner defaults on their mortgage.

The Process of Foreclosure:

1. Missed Payments: Foreclosure proceedings begin after a homeowner misses several mortgage payments.
2. Notice of Default: The lender issues a notice of default, indicating the legal intent to foreclose.
3. Pre-Foreclosure: The homeowner has a period (typically 90 days) to settle the debt or sell the property.
4. Auction: If the debt is not settled, the property is auctioned to the highest bidder.

What is an REO?

REO stands for "Real Estate Owned." It refers to a property that has been foreclosed upon and is now owned by the lender, typically a bank. These properties didn't sell at foreclosure auctions and are usually listed for sale by the lender.

Buying an REO/Foreclosure:

1. Lower Prices: These properties are often priced below market value, making them attractive to buyers and investors.
2. As-Is Sale: They are generally sold “as-is,” which means the buyer will be responsible for any repairs or renovations.
3. Complex Transactions: Buying an REO or a foreclosure can involve more paperwork and longer processing times compared to traditional real estate transactions.
4. Financing: While some REOs may qualify for standard financing, foreclosures bought at auction often require cash or special financing.
5. Inspection: It's highly recommended to conduct a thorough inspection as there could be hidden issues with the property.

Key Considerations:

- Market Research: Conduct thorough research or work with a real estate professional familiar with foreclosures and REOs.
- Legal and Financial Advice: Seek advice from legal and financial experts to navigate the complexities of these transactions.
- Risk vs. Reward: Weigh the potential savings against the risks and work involved in purchasing and rehabilitating these properties.

Understanding REOs and foreclosures can uncover unique opportunities in the real estate market, but they also require careful consideration and due diligence.

A Quick Guide to the Most Common Property Statuses

Active - Available to show, no offer accepted by the seller yet

Active Rel. Clause - Available to show. Previous offer accepted but additional offers being sought.

Active Short Sale - Available to show. Offers being sought. A short sale is defined as a listing which, if sold at list price, would not generate sufficient revenue to satisfy all existing liens and expenses of sale without the lender agreeing to accept less than the full amount of the lien.

Active Short Cont. - Offer accepted by seller and is in review with the bank for short sale approval, No longer available to show in most cases

Active Court Appr. - Available to show. Offer acceptance subject to court approval.

Active Court Appr. Cont. - Offer accepted by seller and is awaiting court approval, No longer available to show in most cases

Pending - Offer accepted. No additional offers being sought

Pending Bring Backups - Offer accepted. Additional offers being sought

KEY: CONT = Contingent; APPR = Approval; REL = Release

Terms You Need To Know

Adjustable Rate Mortgage (ARM): A mortgage with an interest rate that changes over time in line with movements in the index. ARMs are also referred to as AMLs (adjustable mortgage loans) or VRMs (variable rate mortgages).

Adjustable Period: The length of time between interest rate changes on an ARM. For example, a loan with an adjustment period of one year is called a one-year ARM, which means that the interest rate can change once a year.

Amortization: Repayment of a loan in equal installments of principal and interest, rather than interest-only payments.

Appraisal: A report, generated by a third-party individual hired by your lender, that ensures you, as well as the lender, that your home is worth what you are paying for it.

Assumption of Mortgage: A buyer's agreement to assume the liability under an existing note that is secured by a mortgage or deed of trust. The lender must approve the buyer in order to release the original borrower (usually the seller) from liability.

Balloon Payment: A lump sum principal payment due at the end of some mortgages or other long-term loans.

Binder: Sometimes known as an offer to purchase or an earnest money request. A binder is the acknowledgement of a deposit along with a brief written agreement to enter into a contract for the sale of real estate.

Cap: The limit on how much an interest rate or monthly payment can change, either at each adjustment or over the life of the mortgage.

CC&Rs: Covenants, Conditions, and Restrictions. A document that controls the use, requirements and restrictions of a property.

Closing Statement: The financial disclosure statement that accounts for all of the funds received and expected at the closing, including deposits for taxes, hazard insurance, and mortgage insurance.

Condominium: A form of real estate ownership where the owner receives title to a particular unit and has a proportionate interest in certain common areas. The unit itself is generally a separately owned space whose interior surfaces (wall, floors, and ceilings) serve as its boundaries.

Contingency: A condition that must be satisfied before a contract is binding. For instance, a sales agreement may be contingent upon the buyer obtaining financing.

Contingency Period: The contingency period or inspection period is designed to serve three major purposes for the buyer: to inspect the property, to get the buyers loan approved and ready, and to have the home appraised.

The standard California Purchase Contract has a default period of 17 days for these contingency periods. Most bank owned properties reduce the contingency period to only 10 days. Once an offer is accepted and you have a binding contract, the contingency period begins the following day.

Conversion Clause: A provision in some ARMs that enables you to change an ARM to a fixed-rate loan, usually after the first adjustment period. The new fixed rate is generally set at the prevailing interest rate for fixed-rate mortgages. This conversion feature may cost extra.

Cooperative: A form of multiple ownership in which a corporation or business trust entity holds title to a property and grants occupancy rights to shareholders by means of proprietary leases or similar arrangements.

Down Payment: The amount of cash you will be providing from your own resources towards the purchase price. Typically, the higher the deposit, the more attractive your offer. With a higher deposit, you may be offered better rates and options from the lender.

Due-On-Sale Clause: An acceleration clause that requires full payment of a mortgage or deed of trust when the secured property changes ownership.

Earnest Money: The portion of the down payment delivered to the seller or escrow agent by the purchaser with a written offer as evidence of good faith.

Escrow: A procedure in which a third-party acts as a stakeholder for both the buyer and seller, carrying out both parties' instructions and assuming responsibility for handling all paperwork and distribution of funds.

FHA Loan: A loan insured by the Insuring Office of the Department of Housing and Urban Development; the Federal Housing Administration.

Federal National Mortgage Association (FNMA): Popularly known as Fannie Mae. A privately-owned corporation created by Congress to support the secondary mortgage market. It purchases and sells residential mortgages insured by FHA or guaranteed by the VA, as well as conventional home mortgages.

Finance Charge: The total cost a borrower must pay, directly or indirectly, to obtain credit according to Regulation 2.

Graduated Payment Mortgage: A residential mortgage with monthly payments that start at a low level and increase at a predetermined rate.

Home Inspection Report: A qualified inspector's report on a property's overall condition. The report usually includes an evaluation of both the structure and mechanical systems.

Index: A measure of interest rate changes used to determine changes in an ARM's interest rate over the term of the loan.

Joint Tenancy: An equal undivided ownership of property by two or more persons. Upon the death of any owner, the survivors take the decedent's interest in the property.

Lien: A legal hold or claim on property as security for a specified amount on specified terms.

Loan Commitment: A written promise to make a loan for a specified amount on specified terms.

Margin: The number of percentage points the lender adds to the index rate to calculate the ARM interest rate at each adjustment.

Mortgage Life Insurance: A type of term life insurance often bought by mortgagors. The coverage decreases as the mortgage balance declines. IF the borrower dies while the policy is in force, the debt is automatically covered by insurance proceeds.

Negative Amortization: Negative amortization occurs when monthly payments fail to cover the interest cost. The interest that isn't covered is added to the unpaid principal balance, which means that even after several payments you could owe more than you did at the beginning of the loan. Negative amortization can occur when an ARM has a payment cap that results in monthly payments that aren't high enough to cover the interest.

PITI: If you've started to look for a mortgage, you may have run across the term "PITI." Very simply, PITI is an acronym that helps you remember the different components of a mortgage payment: (P)rincipal, (I)nterest, (T)axes and (I)nsurance. Combined, these are amounts you'll pay to your lender each month toward your home.

Planned Unit Development (PUD): A zoning designation for property developed at the same or slightly greater overall density than conventional development, sometimes with improvements clustered between open, common areas. Uses may be residential, commercial or industrial.

Private Mortgage Insurance (PMI): Insurance written by a private company protecting the lender against loss if the borrower defaults on the mortgage.

Prepaid Interest: This per diem charge may vary from a full month's interest to just a few days. If your loan closes at the beginning of the month, you will pay more. If your loan closes at the end of the month, you will only have to pay a few days interest.

Prepayment Penalty: A fee charged to a mortgagor who pays a loan before it is due. Not allowed for FHA or VA loans.

Purchase Agreement: A written document in which the purchaser agrees to buy certain real estate and the seller agrees to sell under stated terms and conditions. Also called a sales contract, earnest money, or agreement for sale.

Real Estate Agent: An individual licensed to represent buyers or sellers of real estate or real property in the state in which they received their license. They must work under a licensed broker. They cannot work on their own.

Real Estate Broker: An individual who has taken education beyond the agent level as required by state laws and has passed a broker's license exam and are now licensed to own their own real estate firm. A real estate agent cannot work on their own, they must work under a licensed broker.

REALTIST®: A Realtist® is a real estate professional who is a member of the National Association of Real Estate Brokers (NAREB), an equal rights organization focused on serving people of color. NAREB's mission is "democracy in housing," which is the right for people of every race, color or creed to become homeowners.

REALTOR®: A REALTOR® is a licensed real estate agent who belongs to the National Association of Realtors®, the largest trade group in the country.

Regulation Z: The set of rules governing consumer lending issued by the Federal Reserve Board of Governors in accordance with the Consumer Protection Act.

Tenancy in Common: A type of joint ownership of property by two or more persons with no right of survivorship.

Title Insurance: Title insurance assures owners that they are acquiring marketable title. It is designed to eliminate risk or loss caused by defects in title from the past.

- ALTA (American Land Title Association) - Title insurance policy that protects the lender's interest in the property.
- CLTA (California Land Title Association) -Title insurance policy that protects your ownership for the full amount you pay for the property.

VA Loan: A loan that is partially guaranteed by the Veterans Administration and made by a private lender.

Moving Checklist

ADDRESS CHANGE
___ Give forwarding address to post office
___ Charge accounts & credit cards
___ Subscriptions, notice requires several weeks
___ Friends and relatives

BANK
___ Transfer funds & arrange check-cashing
___Arrange credit references

INSURANCE
___Notify company of new location for coverage including life, hearth fire and auto

UTILITY COMPANIES
___ Gas, light, water, telephone & fuel
___ Get refunds on any deposits made

DELIVERY SERVICE
___ Laundry, newspaper, milk; change services

MEDICAL, DENTAL, PRESCRIPTION HISTORIES
___ Ask doctor and dentist for referrals; transfer needed prescriptions, eyeglasses, X-rays. Obtain birth records, medical records, etc.

CHURCH, CLUB, CIVIC ORGANIZATIONS
___ Ask about regulations for licenses, vaccination tags, etc.

DON'T FORGET TO
___ Empty freezer
___ Defrost freezer & clean refrigerator
___ Have appliances serviced for moving
___ Remember arrangements for TV & antenna
___ Plan for special care needs of children

ON MOVING DAY
___ Carry enough or travelers checks to cover cost of moving services and expenses until you make banking connections
___ Leave your keys with your real estate agent
___ Carry jewelry and documents yourself; or use a registered and insured carrier
___ Let a close friend or relative know the route and schedule you will travel including overnight stops; use them as message headquarters
___ Plan for transporting pets; they are poor traveling companions
___ Double check closets, drawers, shelves to be to be sure they are empty

AT YOUR NEW ADDRESS
___ Obtain certified check or cashier's check for closing the new home purchase
___ Check on service of phone, gas, electricity, water, etc.
___ Check pilot light on stove, hot water, & furnace
___ Have gas company check appliances
___ Ask mailman for mail he might be holding
___ Have new address recorded on drivers license
___ Visit city offices and register for voting
___ Register car within five days after arrival in new state
___ Obtain inspection sticker and transfer motor club membership
___ Apply for state driver's license
___ Register children in school
___ Arrange for medical services