first-time HOMEBUYER GUIDE

Wisconsin REALTORS® Association

Congratulations
on your decision to buy a home!

This booklet helps you understand what to expect in the homebuying process.

Benefits of homeownership

One of the top reasons for owning a home is that homeownership is a great investment. With renting, your money is gone after you write your monthly rental check; with owning a home, you can deduct the cost of interest on your mortgage loan from your federal income taxes. One of the biggest benefits to owning a home are the tax savings that result from the ability to deduct that interest.

And as a homebuyer, you may also be able to deduct fees charged by the lender and closing costs when your loan is approved and when you finally purchase your new home. Contact a tax advisor for details on how you can take advantage of homeownership tax savings.

Other advantages include:

- **Freedom to live how you want:** With homeownership, you're not limited to landlord policies and rules.
- **Accumulation of home equity:** You can borrow against the equity built up in your home to finance education, a vacation or a new car, to name a few.
- **Stable monthly payments:** The principal and interest portion of most mortgage payments may remain unchanged for the entire repayment period.
- **Increase value:** Home improvements may increase the value of your home.

The role of a REALTOR®

A real estate professional is a REALTOR® when he or she is a member of the National Association of REALTORS® (NAR), the world's largest professional association. The term "REALTOR®" is a registered collective membership mark that identifies a real estate professional who is a member of NAR and subscribes to its strict Code of Ethics.

The process of buying your first home can be mind-boggling. The job of a REALTOR® is to make this process smooth for you. Throughout the process of buying a home, your REALTOR® will provide you with information and advice.

Other primary duties of your REALTOR® include:

- Educate you about the local market, average income and much more.
- Disclose property material adverse facts.
- Negotiate in an objective and unbiased manner, including disclosing the pros and cons of any offers or counter-offers you or the seller make, when handling negotiations between you and the seller.

Agreements with a REALTOR®

In Wisconsin, a homebuyer can choose to work with a buyer's agent or a selling agent. Either way, your REALTOR® is a Wisconsin-licensed, specially trained professional obligated by law to treat all parties fairly in the real estate transaction.

Selling agent: If you work with a selling agent, there is no contract between you and the agent, and you are not the agent's client. You will, however, receive a disclosure to customer form that lists the fair treatment duties owed to you and indicates that the selling agent is either an agent of the seller or an agent of the listing firm (subagent).

Buyer's agent: If you work with a buyer's agent, you are the client of the buyer's agent. You and the buyer's agent sign an agreement. Additionally, the agent will disclose agency duties to you. The disclosure lists the fair treatment duties owed to all parties and the duties owed to you as the client, and indicates that the buyer's agent is the agent of the buyer.

The buyer's agent works for the interests of the homebuyer, but also must know how to work with the listing agent. A buyer's agent can:

- Give a negative opinion or critique of a seller's property beyond disclosing material adverse facts.
- Recommend or suggest an offering price or give you an opinion about whether a particular house is priced too high or too low.
- Structure the offer and draft offer provisions with the buyer's best interests in mind.
- Recommend and assist the buyer with negotiation strategies for the best price and terms.
- Give advice within the scope of the agent's expertise as a licensed real estate professional.

Offer contracts
and closing the sale.

Offers and contracts

Once you find the right home and decide to make an offer to purchase, several points for negotiation should be included in your offer, including price, financing terms, date of possession, and the inclusion or exclusion of repairs and furnishings or equipment. The offer to purchase should also provide a period of time for you to complete appropriate inspections and investigations of the property before you are legally bound to complete the purchase.

Your REALTOR® can advise you as to which investigations and inspections are recommended or required. Your REALTOR® can also prepare contracts on your behalf, and offer a general explanation of the contract provisions. The typical contracts that may be involved in a sale include an offer to purchase, counter-offer, addenda and amendments.

Before you sign an offer, you may want to ask an attorney to look it over. If you have not had a chance to talk to an attorney before you are ready to submit the offer, you can ask your REALTOR® to include an attorney review contingency. This contingency will allow your attorney to object to legal problems that he or she may find in the offer. An attorney can also help you prepare for closing. Your REALTOR® will be able to provide the names of attorneys who practice real estate in your area.

Closing

The mortgage loan closing or settlement is the final step to official ownership of your new house. Even though you have a signed purchase contract and your loan request has been approved, you have no rights to the property, including access, until the legal title to the property is transferred to you and the loan is closed.

Every area of the country has its own unique closing customs. Your REALTOR® can guide you through this process and make sure everything flows together smoothly.

At closing, you will sign the mortgage loan documents and pay your closing costs, the seller will execute the deed to the property, and the closing agent will record the necessary instruments to give you legal ownership of the property.

Closing costs vary widely depending on your new home's price, location and other factors. Overall, you can expect to pay between 1 and 3 percent of the sales price.

As soon as you receive your commitment letter from your lender, you should confirm the actual date of loan closing. Usually your real estate agent, lender and closing agent coordinate a date with you. You want to make sure that closing takes place before your loan commitment expires and before any rate lock agreement expires. The closing date also has to allow adequate time to assemble all of the required documentation.

There are standard documents and exhibits that are commonly required for a loan closing. Some of these will be your responsibility. Some of these will be the responsibility of other parties to the transaction, such as the seller and lender.

Learning about
the property's condition.

Review of the property

This list can help remind you what to look for to make the right purchase decision. Although a final assessment can be made by a home inspector, your understanding of what to look for can help you make the right decision.

Interior

- **Electrical:** Standard house current, number of circuits, outlets and fuses or circuit breakers sufficient for everyday needs.
- **Floors:** Condition of flooring, whether plank or plywood. Solid bridging and joists.
- **Walls:** Condition of walls, whether drywall or plaster. Absence of water marks.
- **Appliances and fixtures:** Refrigerator, dishwasher/disposal, laundry facilities and more all in working order. Accommodation for gas grill hook-up. Bathroom and kitchen fixtures in good shape.
- **Attic:** Sufficiently insulated and ventilated.

Exterior

- **Foundation:** Floors and walls poured concrete. No evidence of water seepage or moisture problems. Note that minor settling cracks are usually not structurally significant.
- **Doors and windows:** Easy to open and close, or replace, for storm and/or screen removal or installation.
- **Roof:** Gutters and downspouts in good condition. If the property is an older home, know how long shingles have been in use. Chimney flashing tightly caulked.
- **Garage:** Doors or opener in good working order. Sufficient electrical and heating access.

Key players and property condition

As a first-time homebuyer, you should learn as much about a property's condition as possible. You'll receive information about the property's condition from the seller, REALTOR®, appraiser, home inspector and other inspectors and testers — all playing different roles in this process.

Seller

Sellers will ordinarily disclose any defects that they are aware of, or have notice of, in the property condition report as well as in the offer to purchase. While these disclosures are important, the seller may have limited knowledge of all or some parts of the property and likely lacks the same technical knowledge as a professional home inspector.

In an "as-is" transaction, some sellers do not make disclosures regarding property defects. As a buyer, an as-is clause should alert you that you're responsible for determining the condition of the property being purchased. Consider hiring inspectors to inspect the property under the inspection contingencies in the offer to purchase.

The use of the as-is clause, though, does not mean that the seller can avoid any and all disclosures. Even with this clause in the contract, the seller must make some disclosures about the property or run the risk of facing liability.

The use of an as-is clause is not always going to be an escape for the seller from all disclosures.

- The seller cannot create potential harm to others by not disclosing a dangerous defect.
- The seller may not actively conceal a defect or prevent a buyer from investigating the property and discovering the defect.
- The seller may be liable if he or she makes statements about the property that turn out to be untrue.
- Finally, the seller may be liable in an as-is sale if he/she doesn't disclose material conditions that would be difficult for the buyer to discover during an inspection of the property.

REALTOR®

With some exceptions, REALTORS® must disclose information that negatively affects the value of a property, known as material adverse facts. These disclosures must be made to all parties in writing and in a timely manner. This disclosure duty includes material adverse facts actually known by the REALTOR® as well as information known by the REALTOR® that suggests a material adverse fact might exist. Like the seller, the REALTOR® is not required to have the same technical knowledge as a home inspector. If you feel that a REALTOR® failed to make a required disclosure, contact the REALTOR® directly. If you are not satisfied following the discussion with the REALTOR®, you may file a complaint with the Department of Safety and Professional Services or your local REALTOR® association.

Home inspector

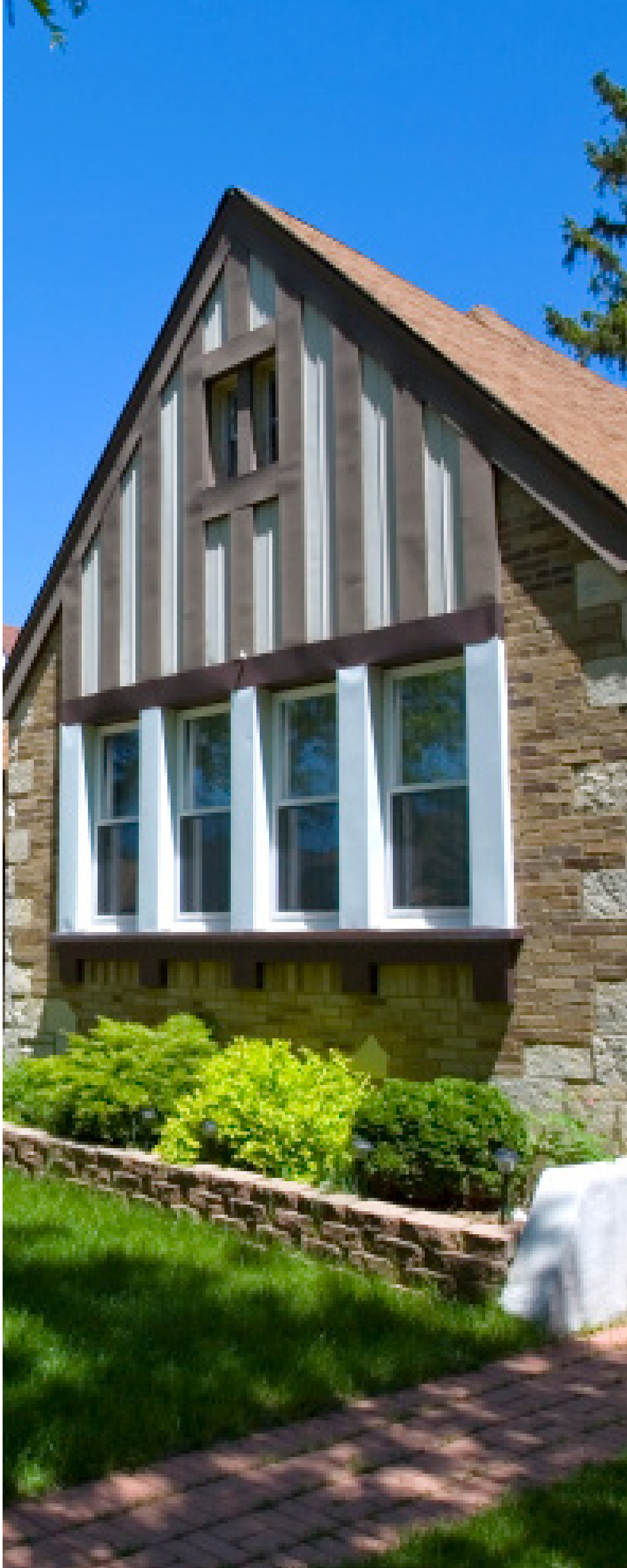
Your REALTOR® may provide you with names of home inspectors working in your area, but you are responsible for verifying that the inspector you hire meets your requirements. Because the minimum requirements for a home inspection under the home inspector regulations are not very extensive, it is important to discuss what parts of the property will be inspected and what parts will not before signing your home inspection contract. Your REALTOR® may provide you with a checklist to ensure all areas of the property you wish to have inspected are addressed by the home inspector or other testers.

Other inspectors and testers

In addition to the home inspection, you may want to have other inspections and tests performed, such as lead-based paint tests, radon tests and furnace heat exchanger inspections. These must be addressed in the offer to purchase, as buyers are only authorized to have tests and inspections performed if they are necessary to complete a contingency in the offer. Therefore, it is important that you discuss with your REALTOR® all of the inspections and tests you wish to complete and ask your REALTOR® to include appropriate contingencies in the offer.

Appraiser

Appraisers are ordinarily employed by the lender to verify the value of the property before the lender proceeds with your loan. Some loan programs ask the appraiser to identify property defects the appraiser observes. Be aware that appraisers are not required to have the type of technical knowledge that home inspectors have and thus do not consider the appraisal a substitute for a home inspection or other test.



Financing
your new home.

With most purchases, you simply go to the store, make your selection and pay. But buying a new home, because of the price tag, is quite different. Few people have the ability to go shopping, choose a house and pay cash. Rather, most pay a cash down payment on a new home and finance the remainder of the purchase price with a mortgage loan. A mortgage requires you to pledge your home as the lender's security for repayment of your loan.

Since financing is a key issue in most sales contracts, one of the first things you should do is to figure out how much house you can afford — how large of a mortgage loan you qualify for.

Lenders use two specific guidelines to determine the amount they will lend you: (1) housing expenses and (2) long-term debt. Lenders generally say that housing expenses — including mortgage payments, insurance, taxes and special assessments — should not exceed 25 to 28 percent of your gross monthly income. Long-term debt is usually defined as monthly expenses extending more than 10 months into the future and should not exceed 33 to 36 percent of your gross monthly income. These numbers may vary according to loan type, credit and down payment. Many loans today allow up to 33 percent for the housing-to-income ratio and 38 percent for the total debt-to-income ratio.

Types of mortgage loans

Although you may hear about many different types of mortgage loans, they all belong to two families: conventional and government. These loans are available through various mortgage lenders.

Conventional loans

The two types of conventional loans are fixed-rate mortgage loans and adjustable rate mortgage loans.

A fixed-rate mortgage is the traditional method of financing a home. The interest rate stays the same for the entire term of the loan, usually 15 or 30 years, making payments stable and predictable. An adjustable rate mortgage (ARM) interest is linked to a financial index, such as a treasury security, so your monthly payment can vary over the life of the loan, usually 25 to 30 years. Most ARMs have a lifetime cap on the interest rate increase to protect the borrower. The lower initial payments on ARMs make qualifying relatively easy. Some ARMs may be converted to fixed rates at specified times, within usually the first five years.

Government loans

To obtain these loans, you file an application with a lender approved to handle such loans.

- **FHA loans:** With an FHA loan, you can purchase a home with very low down payments. FHA mortgages have a maximum loan limit that varies depending on the average cost of housing in a given county.

- **VA loans:** The federal VA guarantee allows qualified veterans to buy a home, potentially with no down payment. Qualifications vary depending on the time enlisted in the armed forces and fund availability. You must check with either the state of Wisconsin Department of Veterans Affairs or a participating lender to determine your status.

- **Rural development:** Rural development loans offer home loans with no down payment requirements to low- and moderate-income persons who live in rural areas or small towns.

- **WHEDA loans:** WHEDA offers a variety of loan programs frequently featuring low down payments or interest rates. Each WHEDA loan program has eligibility requirements.

Choosing a lender

As soon as the sales contract is signed, obtaining financing for the new home becomes key for most buyers.

When most people think about choosing a mortgage lender, they think about finding the lowest rate. Mortgage packages consist of more than interest rates. The packages consist of a quoted rate plus origination fees and discount points, which are prepaid interest assessed by the lender at settlement; other fees; a full range of terms including adjustable versus fixed-rates, low down payment versus high down payment and the presence or absence of prepayment penalties; and packages also include many other features.

In addition to the financial considerations, you will want a lender you can trust, a lender you can work with effectively, and a lender who offers a wide range of mortgage loan products. Use these three steps to shop for a mortgage.

1. Build a list of lenders

Talk with your REALTOR®. REALTORS® are normally in the best position to learn about financing opportunities in the marketplace. Lenders regularly call agents to alert them to financing packages. Talk to people you know who have bought or refinanced a home recently. Visit websites for lenders in your area and online lenders. Many sites include information on home loan programs as well as publish rates.

2. Talk to a loan officer

Call or visit the lenders on your list. Get a feel for what it will be like to work with them and how they approach your needs. You might want to ask for references from other recent homebuyers. When meeting with a potential lender, be sure to ask these important questions:

- What type of mortgage loan products do you offer?
- What are your rates, points, rate-lock period?
- What are your closing costs?
- How long will you take to process my application?
- How long before I know if I have been approved?
- What documents do I have to provide?
- What costs am I expected to pay?
- Is a deposit required to make an application?

3. Compare rates for similar loans

Among the topics you'll want to discuss with prospective lenders are the rates they offer on mortgages. When comparing rates between lenders, be sure the rates are for comparable loans and rate-lock periods. Remember to include fees and other costs so you're comparing apples to apples.

Applying for a mortgage loan

The loan application process, with its countless loan documents, unfamiliar terminology and uncertainty, can be complicated and stressful.

The first thing you should do after choosing your REALTOR® — even before you start shopping for a house — is choose a lender and get pre-qualified for a mortgage loan. Pre-qualification provides you with a ballpark estimate of how large a mortgage you can afford. This will help you to focus your shopping on homes that fit into your price range.

To get pre-qualified, set up a meeting with the lender. The lender will ask you questions regarding your income, debts and assets, and will also explain your financing options and the loan amount you can qualify for. Many buyers choose to get pre-approved at this time as well. A loan pre-approval gives you a stronger bargaining chip when you are negotiating with the seller because you've already been approved for a mortgage loan.

Once you have an accepted offer to purchase on a home, your next step is to set up a loan application meeting with your lender. During your loan application meeting, the loan officer will fill out, or help you fill out, the loan application form. The application asks for information on the property you are buying, terms of the purchase contract and your employment and financial history.

You can complete the loan application process easily and accurately if you prepare for it in advance. When you set up the meeting, make sure to ask the lender what information and supporting materials you will need to have with you to complete the application. Typically, such pieces of material will include pay stubs, W-2 forms and federal tax returns from the past few years, bank statements, and long-term debt information such as credit card and auto loan information.

After you submit your loan application, your loan officer will give your file to the loan processing department where the information is verified and calculations are checked. The loan then passes to the underwriting stage, where the decision to approve or not approve is made.

Once your loan is approved, it moves to the final step in the process: the closing of the transaction. Documents must be signed, fees paid and title transferred. Once the sale is closed, the house and mortgage are yours.

Home appraisals and mortgage loans

As part of your mortgage loan application, you'll pay for your lender to order an appraisal on the house that you are buying. Appraisals typically run between $200 and $400. Lenders won't approve and fund your loan until they establish that the home you are buying is worth the loan amount requested. An appraisal is an objective estimate of the current market value of a home. Appraisers use comparable sales and listing data as well as information about the home being appraised, its neighborhood, community, and local and national economy to support value estimates.

Once the appraisal is complete, be sure to ask your lender for a copy of it. By law you are entitled to a copy of the appraisal.

What happens after you apply for a loan

For many homebuyers, the period of time between the submission of the loan application and receipt of the lender's commitment letter is one of uncertainty and concern. However, if you understand the process, waiting for approval will be far less worrisome.

After your loan application has been completed, your lender will begin the work of verifying all the information you've provided. This process can take anywhere from one to six weeks, depending on several factors such as the mortgage you choose, whether you are buying a home outside your local community, among others. Your loan officer should be able to give you an idea of the processing time.

Within three business days after completing the application, the lender must give you a loan estimate. It will show costs associated with the loan settlement, such as origination fees, mortgage insurance, title insurance, escrow reserves and hazard insurance.

You'll also receive a statement with your estimated monthly payment. The total cost of all finance charges on your loan is also shown, stated as an annual percentage rate (APR). The APR represents the dollar amount of finance charges you pay either up front or over the life of the loan, converted to an annual interest rate.

During this waiting period, remember to keep communication open. You should be accessible if the lender needs additional information during processing. Quick response to lender requests helps to keep the process on schedule.

After the lender approves the loan, you will usually receive a commitment letter that sets out the terms of the loan and the length of time those terms are offered. You usually must accept the commitment by returning a signed copy to the lender within five to 10 days. The commitment may contain conditions that you will still have to satisfy, so read carefully.

WRA
Wisconsin REALTORS®
Association

Resources

Equal Opportunity in Housing
Federal, state and local laws and the REALTOR® Code of Ethics require sellers and REALTORS® to provide all buyers an equal opportunity to purchase a home. Under Wisconsin law, it is illegal to discriminate in renting or selling because of sex, race, color sexual orientation, disability, religion, national origin, marital status, family status, age, lawful source of income and ancestry.

If you feel you may have been a victim of discrimination, please contact:

The Wisconsin Department Of Workforce Development — Equal Rights Division
414-227-4384, 608-266-6860, tty 414-227-4081, tty 608-264-8752
dwd.wisconsin.gov/er/equal_rights_division/contacts_all.htm

The HUD Office of Fair Housing and Equal Opportunity
1-800-669-9777
portal.hud.gov/hudportal/HUD?src=/program_offices/fair_housing_equal_opp

If you would like to file a complaint regarding a violation of the REALTOR® Code of Ethics, contact the local REALTORS® Association. You may contact the Wisconsin REALTORS® Association at (608)241-2047 for the location of the local REALTOR® Association.
www.wra.org

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