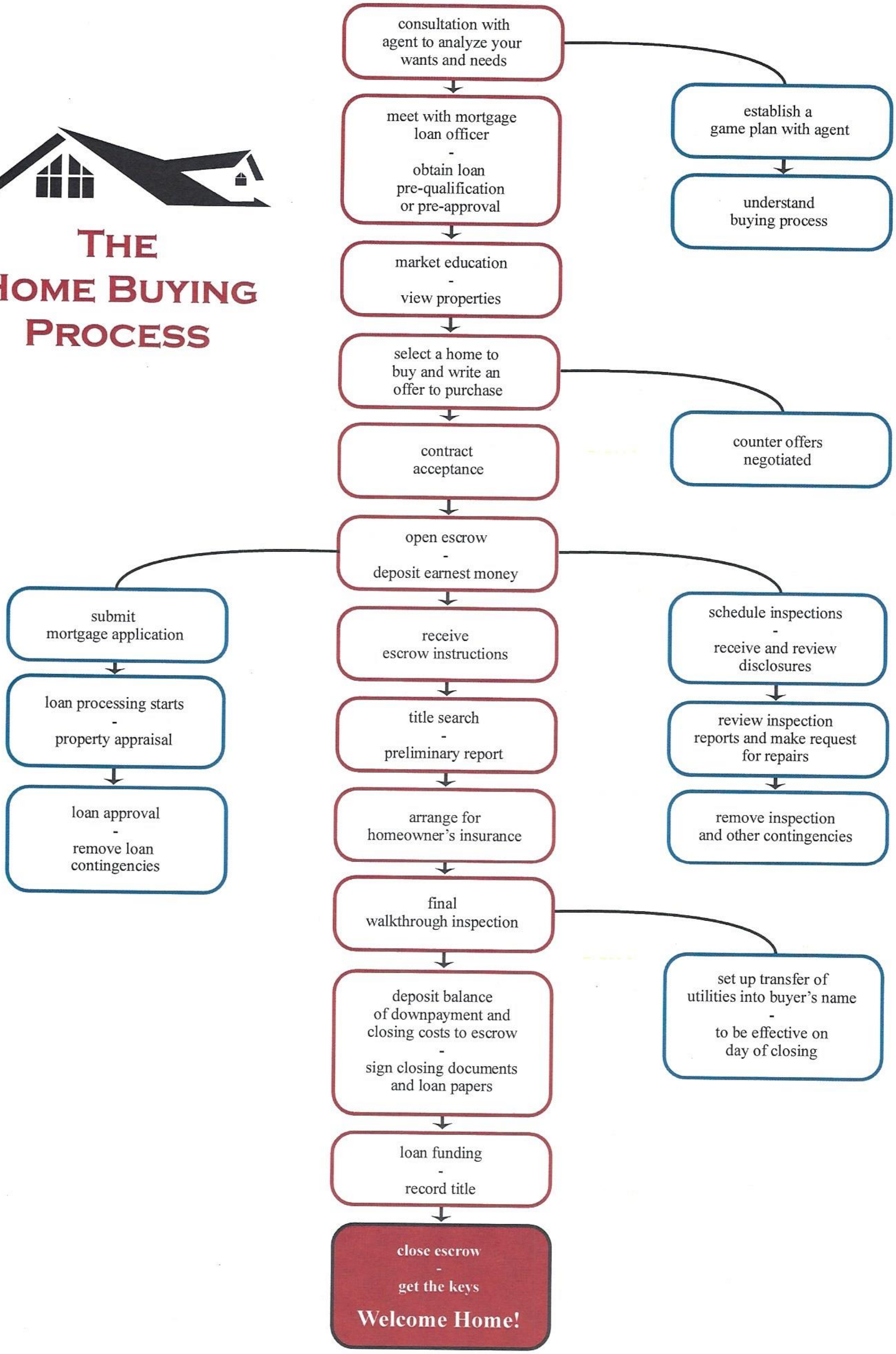
The Home Buying Process



Buyers' Agent

An agent is a party who is authorized to act on behalf of another party (the principal). This agency relationship requires the highest standard of care on the part of the agent, including fiduciary responsibilities. These include absolute loyalty to the principal, together with a duty of honesty and total disclosure of all facts and information which may affect the principal. In addition, the agent is required to keep all information confidential and must obey the principal's instructions to the best of his or her ability.

Traditionally, an agent was hired by the seller of property and worked for the seller. This agent is usually referred to as the "listing agent". The listing agent works for and is paid by the seller.

In order to provide the purchaser with enhanced representation in a transaction, State law now presumes a "buyer agency." In buyer agency, the "selling agent" in fact works for the purchaser. This type of agency is created very early in the relationship between the buyer and agent. Prior to entering into a contract to purchase, this relationship must be reduced to writing. The advantage of a "buyer's agent" is that a licensed, professional agent will be working solely on behalf of the buyer in order to assist in finding the best house at the best price and to protect the buyer in the purchasing process.

Normally, by the consent of all parties, the commission for the buyer's agent will be paid by the seller. This is done in the form of an addendum to the contract, wherein the seller recognizes that the agent is working on behalf of the buyer, but, nevertheless, agrees to pay the buyer's agent's fee for bringing about the sale.

You should discuss any questions you may have about agency relationships with your real estate agent. It is important to establish from the beginning whether you will be utilizing a buyer's agent or working with an agent who is the sub-agent of the seller. Under State law, the agent is required to provide a written disclosure of all types of agency relationships and the rights of purchasers and sellers. You will then be given the opportunity to elect which type of agency relationship you prefer. Since the law requires the written disclosure at the first scheduled meeting with the agent, you should not be surprised when the agent asks you to sign the form.

In either event, because the agent has a duty of honesty and fairness, you should be treated properly throughout the transaction. However, if you desire the additional protection of a "buyer's agent," then you should discuss this with the real estate agent with whom you are currently working.

What Home is the Right Home?

The Basics

1. What part of town (or country) do you want to live in?______________

2. What price range would you consider? No less than ________ but no more than __________

3. Are schools a factor and, if so, what do you need to take into consideration (e.g., want specific school system, want kids to be able to walk to school, etc.)?
   ____

4. Do you want an older home or a newer home (less than 5 years old)? _______

5. What kind of houses would you be willing to see?

   ______One story ______2 story ______split foyer ______bi-level ______tri-level
   ______townhouse or condo ______mobile home

6. What style house appeals to you most?

   ___contemporary ___traditional ___southwestern ___colonial ___no preference

7. How much renovation would you be willing to do? A lot___ A little ____ None! ____

8. Do you have to be close to public transportation? ______yes ______no

9. Do you have any physical needs that must be met, such as wheelchair access? _____yes _____no

10. Do you have any animals that will require special facilities? ______yes ______no

    If so, what? _______________

11. The Lot

	Must Have	Would Like to Have	
Large yard (1 acre or more)	______	______	
Small yard (less than 1 acre)	______	______	
Fenced yard	______	______	
Garage	______	______	
Carport	______	______	
Patio/deck	______	______	
Pool	______	______	
Outdoor spa	______	______	
Extra parking	______	______	
Other buildings (barn, shed, etc.)	______	______	
Special view	______	______	Of what? __________

The Interior

12. How many bedrooms must you have? _____ would you like to have? _____

13. How many bathrooms do you want?_____

14. How big would you like your house to be (square feet)? No less than _____
But no more than ______

15. What features do you want to have in your house?

	Must have	Would Like toHave
Air conditioning	______	______
Wall-to-wall carpet	______	______
Ceramic tile	______	______
Hardwood floors	______	______
Eat-in kitchen	______	______
Separate dining room	______	______
Formal living room	______	______
Family room	______	______
Greatroom	______	______
Separate den or library	______	______
Basement	______	______
Separ ate laundry room	______	______
Fireplace	______	______
Workshop	______	______
No interior steps	______	______
"In-law" apartment	______	______
Spa in bathroom	______	______
Lots of windows (light)	______	______

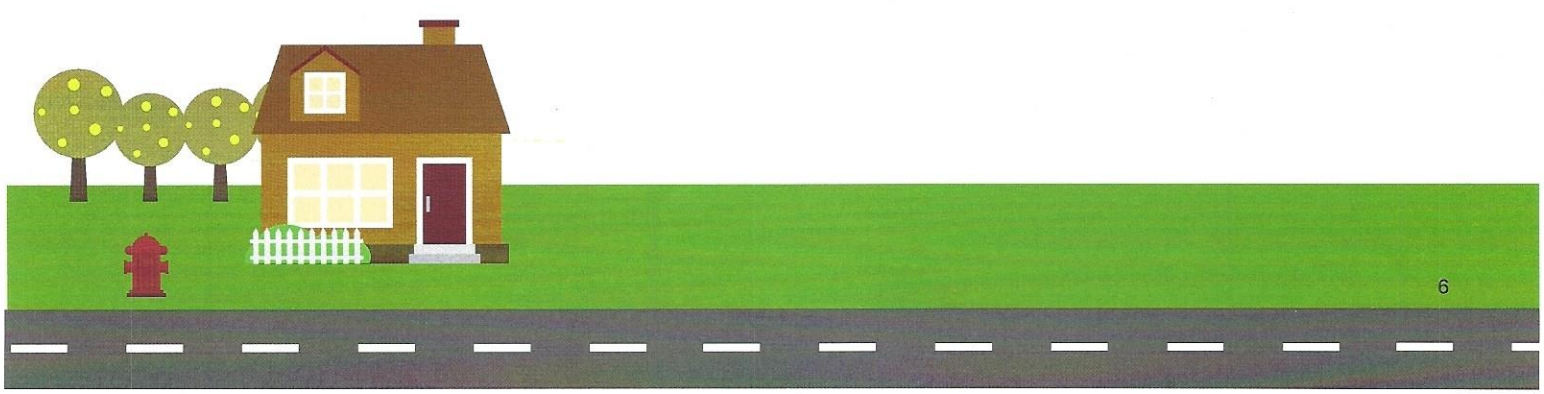
Community features

16. Do you want to live in an area with a Community Association?______yes ______no

17. What else do you want in your community?

	Must have	Would like to have
Community pool	______	______
Golf course	______	______
Basketball court	______	______
Tennis courts	______	______
Gated community or doorman	______	______
Clubhouse/activities	______	______

18. Are there any other special features or need s that you must consider when you're looking for a home?



Check List

You'll want to make several copies of this checklist and fill one out for each home you tour. Then, comparing your ratings later will be easy.

THE HOME	Good	Average	Poor
Square footage			
Number of bedrooms			
Number of baths			
Practicality of floorplan			
Interior walls condition			
Closet/storage space			
Basement			
Fireplace			
Cable TV			
Basement: dampness or odors			
Exterior appearance, condition			
Lawn/yard space			
Fence			
Patio or deck			
Garage			
Energy efficiency			
Screens, storm windows			
Roof: age and condition			
Gutters and downspouts			

THE NEIGHBORHOOD	Good	Average	Poor
Appearance/condition of nearby homes/businesses			
Traffic			
Noise Level			
Safety/Security			
Age mix of inhabitants			
Number of children			
Pet restrictions			

THE NEIGHBORHOOD (Cont.)	Good	Average	Poor
Parking			
Zoning regulations			
Neighborhood restrictions/ covenants			
Fire protection			
Police			
Snow removal			
Garbage service			

SCHOOLS	Good	Average	Poor
Age/condition			
Reputation			
Quality of teachers			
Achievement test scores			
Play areas			
Curriculum			
Class size			
Busing distance			

CONVENIENCE TO:	Good	Average	Poor
Supermarket			
Schools			
Work			
Shopping			
Child care			
Hospitals			
Doctor/dentist			
Recreation/parks			
Restaurants/entertainment			
Church/synagogue			
Airport			
Highways			
Public transportation			

How Mortgages Are Approved

There are several factors involved in the loan approval process of your mortgage application.

- **Income.** When you're qualifying for a loan, lenders usually use your gross income (all the money you earn before taxes) to determine the monthly mortgage payment you can afford. Gross income may also include the average of overtime pay and commissions, and child support or alimony, if you wish to have them considered.

- **Monthly mortgage payment as a percentage of your income.** In general, lenders require that your total monthly mortgage payment — principal, interest, property taxes, mortgage insurance, hazard insurance and any homeowner association dues — be no more than 28% to 33% of your monthly gross income.

- **Your total debt situation.** You may have car loans, student loans, credit cards, child support, alimony or other monthly expenses. In general, lenders require that the total of all your monthly expenses (excluding basics like utilities and groceries) not exceed 38% of your gross monthly income.

- **Credit history.** A satisfactory record of paying your bills on time is an important part of getting a home loan. If you've had credit difficulties within the past two years, a good explanation of any late or missing payments on your credit report will be taken into consideration.

- **Employment history.** Lenders usually prefer to lend money to people whose incomes have grown steadily over the past several years and who have worked consistently in the same or related occupations. You will need to verify employment. If you're self-employed, work on commission or have been at your job less than two years, you may need to provide additional information about your work history.

- **Property appraisal.** A professional appraisal is done to determine the value of the home. An appraisal is based on the home's condition and selling prices of comparable properties in the area and confirms that the property is worth the purchase price you're offering for the home.

Finding the Right Mortgage

For most people, choosing a mortgage is one of the most important financial decisions they'll ever make. With all the different types of mortgage loans out there, it's important for even the savviest of homeowners or future homeowners to know the facts. But if you're not sure about the pros and cons of a fixed-rate mortgage, adjustable-rate mortgage, or interest-only loan, don't worry — you're certainly not alone.

Before you sign on the dotted line, here's a little "Mortgage 101" to get you started.

Picking a type of mortgage loan:

- <u>Fixed-rate mortgage</u>
  This type of mortgage loan is great if you like to know what your loan payment will be every month. Because the interest rate stays the same throughout the life of the loan, you will always know exactly how much you'll pay for principal and interest (although if your taxes or insurance go up, you can expect an increased payment.) A typical fixed-rate mortgage has a life of either 15 or 30 years[1]. In the past few years, other types of mortgage loans have become available, including the 40-year fixed-rate mortgage. The 15-year fixed-rate mortgage has a higher monthly payment with a lower interest rate, while the 30-year fixed-rate mortgage usually has slightly lower monthly payments and a somewhat higher interest rate. These are both a good choice for people who plan on staying in their home for a long time.

- <u>Adjustable-rate mortgage (ARM)</u>
  With this mortgage type, the interest rate can change from time to time. This means your payment could go up or down, depending on what the market is doing. An adjustable-rate mortgage may be a good choice for first-time home buyers, or those with little money to initially spend on a house, because the interest rate for the first year — or first few years — is usually lower. An adjustable-rate mortgage can also be a great fit if you suspect rates will go down in the future or if you plan on being in the house for only a few years.

- <u>Interest-only (IO) mortgage</u>
  This type of mortgage loan is becoming increasingly popular with first-time homeowners who wouldn't otherwise have the means to enter the housing market. While you won't be paying down the principal on the mortgage for the first few years, the payment is more affordable. It's also an option for people who'd like to use the funds they would have been spending on principal to pay down other debt. Individuals with income that fluctuates, such as those who are self-employed or paid on a bonus schedule also appreciate this type of mortgage loan. They like the idea of paying only the interest so they can make principal payments to their mortgage loan when their finances allow for it.

Understanding Your Credit Report

Credit involves the borrowing of funds with the intent to repay the lender at a later date, such as credit cards, car loans and student loans.

After receiving a loan prequalification request or application, the lender will request a credit report from the credit bureau. The credit bureau collects and organizes information about people who have credit. The information generally goes back seven to 10 years. This report includes your name, address, employer, length of employment and previous credit history. Credit history includes account types, balances remaining, payment status, collection information and inquiries.

Credit report information documents your financial behavior over the past seven years — how much credit you have, how long you've had it and whether you pay your bills on time, among other things. Knowing what information is in your report.

Three credit reporting agencies — **Equifax, TransUnion and Experian** — maintain credit reports. Lenders buy credit reports to help them decide whether to offer you a prequalification. You can also purchase a copy of your report from these agencies. Your credit report contains information about:

- Credit accounts and payment history
- Applications you have made for loans and other time payments
- Personal information, including your name address and Social Security number
- Employment information
- Legal actions (for example, judgments, collections, bankruptcy)

Here is how to contact the credit reporting agencies:

Equifax: www.equifax.com

TransUnion: www.transunion.com

Experian: www.experian.com

Your credit report also carries your credit score, a numeric ranking between 300 and 850 that many lenders use to decide whether you are creditworthy. The score is used to help predict whether you'll repay a loan. It's calculated using five sources:

- Payment history
- Amount owed
- Length of credit history
- New credit
- Types of credit in use

Mortgage Costs and Fees

- **Down payment.** When you borrow money for a home, you may be required to contribute some of your own money toward the purchase of the home. This money is called your down payment. The amount you need varies depending on the type of mortgage you choose, the purchase price of the home and your financial situation.

- **Closing costs.** In addition to your down payment, you will need to pay closing costs for processing your loan and transferring the property ownership from the seller to you, the buyer. Closing costs can range from 3% - 5% of your loan amount, depending on where you live, the loan you choose and your closing date. In some cases, you can finance certain closing costs in your mortgage loan. When you apply for a loan, your lender will give you an estimate of closing costs, which may include:

    - Origination fees, which are the costs of processing your loan (including property survey and appraisal)
    - Items paid in advance, including first-year mortgage insurance premium, first-year hazard insurance premium and first-year flood or earthquake insurance premiums, if required
    - Escrow account, an account held by the lender into which the homebuyer usually pays for city/county property taxes, mortgage insurance, hazard insurance and flood or earthquake insurance, if required
    - Title insurance charges
    - Recording and transfer charges
    - Attorney's fees

- **Mortgage payment.** When you make a mortgage payment, most of your payment goes toward the principal and interest of your loan. The principal is the remaining balance of your loan, and the interest is the cost of borrowing the money. Typically, all or most of your interest payments are tax deductible. In addition, a portion of your mortgage payment is usually set aside in an escrow account to pay property taxes, mortgage insurance and hazard insurance.

- **Mortgage insurance.** If your down payment is less than 20% of the home purchase price, you can expect to pay some form of mortgage insurance. Home loans that are insured let you buy a home with a lower down payment than the lender would otherwise require. Mortgage insurance costs vary, depending on the amount of your down payment and the type of loan you select. Two government agencies — the Federal Housing Administration (FHA) and the Veterans Administration (VA) — provide insurance for certain kinds of mortgage loans. Mortgage insurance is also available from private companies.

What You Need to Apply

Mortgage loan requirements:

- **Employment information.** Names, addresses and telephone numbers of all your employers for the last two years.

- **W-2s.** These are the forms you get from your employer every year to file your income tax returns. Usually you will need to provide copies of your W -2s for the two most recent years. You may also provide other income information, such as social security, pension, interest or dividends, rental income, and child support or alimony, if you choose to have them considered. Self-employment income may also be considered.

- **Pay stubs.** Provide your pay stubs that cover the 30-day period before the date of your mortgage application.

- **Federal income tax returns.** If you are self-employed, or more than 25% of your income comes from commission, overtime or bonuses, you may need to provide complete copies of federal income tax returns you filed for the two most recent years.

- **Bank statements.** You may need to provide statements from all your accounts (checking, savings, mutual funds, money markets, certificates of deposits, 401(k) or other retirement accounts) for the last two months to verify the exact amount of cash you have available for your down payment and other costs associated with your home purchase. For certain mortgage loans, a portion of the down payment may come from a gift from a family member or a grant from a local down payment assistance program.

- **Current debts.** You'll need to provide the account numbers, current balances and the minimum monthly payments of all credit accounts, such as loans, credit cards, child support and other payments you make each month.

Mortgage Underwriting

Once all the required documentation has been gathered, your application is submitted to underwriting. Loan underwriting is the process of reviewing all of the information and making a decision as to whether a borrower qualifies for a loan.

- **Loan application.** The information provided on your application helps the lender answer basic questions such as:
    - What is the source of your income, and is the source stable?
    - Is your income adequate to cover the expense of the new mortgage payment?
    - How much long-term debt (debt that will not be paid within the next 10 months) do you have?
- **Credit history.** Your credit history helps lenders evaluate your ability to manage debt. It reflects how repayment of your bills has been handled in the past. In some cases where borrowers don't have an extensive credit history, some lenders will consider alternative payment records, such as rental payments and utility bills.
- **Property appraisal.** An appraisal provides an estimate of the market value of the home that you wish to buy and is based on similar homes sold in the neighborhood. Lenders usually grant up to a certain percentage of the property's value in a mortgage loan. This percentage is called the loan-to-value (LTV) ratio. The rest of the property value is covered by your down payment.
- **Hazard insurance.** Hazard insurance (sometimes referred to as a homeowner's policy) protects you and the lender from loss in the event the home is damaged or destroyed by fire, storm or other hazards. You're responsible for obtaining hazard insurance prior to closing and for providing proof of insurance to your lender. The lender may also require additional insurance against loss by flood or earthquake.

Closing the Deal

The closing is the final step in which the home is transferred to you. Once your loan is approved, a closing date is set. Depending on the laws of your state, the closing may be conducted by either:

- Your lender
- A title insurance or escrow company
- Your real estate broker
- An attorney who represents either you or the seller

Pre-closing activities

The purpose of the closing is to make sure the property is ready to be transferred to you from the seller. To ensure that the transfer can be made, the lender normally prepares the following items ahead of time:

- **Title search and report.** Research of land records, court records and other legal documents to determine if the seller has a clear, marketable title to transfer to you.

- **Title insurance binder.** Indicates the result of the title search and assures the lender the title to the property qualifies for a title insurance policy.

- **Survey.** Confirms the property boundaries are as described in the purchase and sale agreement. (A survey is not required in all states.)

- **Termite, well, sewer or septic certificate.** Certifies that the sewage and water supply work properly and that the property is free of termites and/or other wood destroying insects. The sales contract will state whether you or the seller is responsible for these inspections and certificates.

- **Title insurance.** Title insurance protects your lender against losses that may be incurred because of a defect in the title, a forgery, a recording error, claims of undisclosed or unknown spouses or heirs, and other risks that did not appear in the public records when the title search was done.

- **Hazard insurance.** Hazard insurance (also referred to as a "homeowner's policy") protects you and the lender from loss in the event the home is damaged or destroyed by fire, storm or other hazards. You are responsible for obtaining hazard insurance prior to closing and for providing proof of insurance to your lender. The lender may also require additional insurance against loss by flood or earthquake.

Document preparation

Several other documents must be prepared by the lender before the closing:

- **HUD 1 settlement statement.** An itemized list of the credits and charges, for both you and the seller, based on the contract terms.

- **Loan documents.** Final loan documents that grant your lender a lien against the property in order to secure the repayment of your loan. These documents include a promissory note, which is your legal promise to repay the loan; and a deed of trust/mortgage, the instrument that is recorded in the public records.

- **The deed.** Transfers ownership of the property to you. The deed must contain a legal and accurate description of the property.

Make sure you ask to review all your settlement documents at least one day before you sign them. Also consider asking your attorney to review them.

At the closing, you will sign many documents, including:

- Settlement statement
- Note
- Deed of trust/mortgage

You will probably be required to pay any remaining down payment and closing costs. A certified or cashier's check rather than a personal check is usually required.

Settlement

There are many important matters which must be tended to prior to settlement. Some buyers are not aware, but you have the right to select any title company of your choice. Once you have made your selection, you should advise your real estate agent of your choice so they can forward them over the contract.

The first step the title company will take is to order a **title report** or **title abstract**. This report will show the title attorney a sixty year history of the property. The abstract will also reveal whether any outstanding lawsuits, judgments, or liens exist and will state whether any easements, rights-of-way, covenants, or restrictions affect the property.

The title company will also order a **house location survey**. This survey will reveal whether any fences encroach upon the neighbor's property or vice versa, and whether the house and other structures are within the property lines. The survey will also reveal if any portion of the house or other structures have been built over any building restriction lines. Unless you specifically request, in writing, the surveyor will not place iron stakes in the corners. The surveyor will identify, in most cases, when an existing stake has been found. If you wish to obtain a survey where the iron pipes are placed in each corner, you will have to pay an additional fee for this service. In either case, under state regulations, you will be required to sign a form electing either a house location survey or a stake survey. The surveyor cannot commence work on either type of survey until you sign this form.

Next, your title attorney will prepare the **title insurance binder** and **title insurance policy**. The policy is designed to protect both you (if you elect to purchase a policy) and the lender, who will require you to purchase a policy on its behalf, against any outstanding title defects which are not otherwise excepted from the policy. The title insurance premium which you pay at closing is a one-time charge and will protect you for as long as you own the property.

After reviewing the title report and survey and preparing the title insurance binder, your title company will forward this information to your mortgage lender in advance of settlement. Your lender will then review the entire package as part of the overall loan approval process. As the settlement date nears, the title attorney and the lender will be in close contact, making arrangements to deliver your loan papers to the settlement office. These papers will be carefully reviewed by the title attorney in order to determine that they are in proper form. In addition, your title company will prepare the **settlement statement** which sets forth all of the costs and expenses of your settlement transaction.

At settlement, the settlement statement and all of the loan documents will be reviewed. The Seller will also sign the Deed, which will transfer legal title to you. In addition, settlement is often a time for final discussions regarding the operation of various items in the house, as well as the delivery of the keys.

Throughout the settlement process, your title attorney will be available to answer any questions you may have regarding your loan documents, the contract, and any addenda which you must sign, as well as any other matters regarding your settlement.

After settlement, it is the responsibility of your title company to disburse all of the funds to the various parties. The Seller's loan will be paid off, and the Seller will receive the proceeds check. Several weeks after settlement, the Seller will receive a refund of any funds being held in escrow by the current lender.

The title company will also be responsible for recording the Deed and your loan documents at the courthouse. Approximately four to eight weeks after settlement, you will receive the Deed and, if purchased, your owner's title insurance policy. Although you may not receive the Deed for many weeks, you will be the owner of the property.

In preparing for settlement, you should discuss with your real estate agent and loan officer certain items which will be necessary for settlement. For example, your lender will require you to deliver evidence that you have purchased a hazard insurance policy on the house and have paid the first year's premium in advance. Additionally, it may be necessary to provide the lender with a copy of the termite inspection report and well and/or septic reports. Your lender may also need some final documentation in order to complete your loan package. You should stay in constant contact with your loan officer in order to ensure that all documentation is provided to the lender in a timely manner.

Also, you will want to contact the various utility companies involved to transfer the accounts into your name.

Finally, you should be prepared to bring **a certified or cashier's check**, payable to your chosen title company to closing. Although it is often difficult, if not impossible, to obtain the exact amount of your check in advance, you should utilize the estimate provided by the agent or your loan officer in order to determine the approximate amount. Most companies will accept a personal check for a nominal difference. If you bring too much money to closing, they will most certainly issue a refund check at closing.

When all the necessary documents and releases are recorded, you will receive the keys to your new home!