

The Home Buying Process

Pre-approval. The pre-approval is the most important first step to the home buying process, for many reasons. First, it lets you know how much you can afford. A good loan consultant will work with you to discuss the overall maximum price you could borrow, breaking it down to monthly payments that are suited to your comfort level. It also will answer any/all credit issues you may have, providing tips to help increase your score and ways to help maintain your score. Lastly, when you find a home you like, you **NEED** a pre-approval to submit with the offer. This will help the seller know you are ready, willing and, most importantly, an **ABLE** buyer.

A pre-approval will take 45 minutes to an hour for the application process and then generally a day or two to verify all the information. You will need to supply your loan consultant with certain financial information, pay stubs, tax information, etc. This will help your consultant verify certain information to arrive at a finance amount suitable to your needs and comfort level. You do not have to use the lender who approves you when it comes time to purchase, but it is best to know who you will be using as your lender before putting in an offer. All parties involved in the home buying process should be communicating with each other from the very beginning. This will promote a smoother transaction.

The Offer to Purchase. When you find a property that you wish to buy, you make an offer through a written contract called the Offer to Purchase. Your offer traditionally is accompanied by an “earnest” deposit, usually ranging between \$500 and \$1,000 for the average home, which is to signify your earnestness or sincerity about purchasing the property. That deposit is kept in an escrow account either by the seller’s real estate agency or attorney.

The Offer to Purchase, or its addenda, provide the buyer with the opportunity to conduct a variety of inspections on the property before proceeding further with the purchase. It also provides the timeframe during which the buyer must apply for financing and receive a mortgage commitment. Depending on where you are buying in Massachusetts, the Offer to Purchase form may vary in look and content, but all of them have the same basic components.

Consideration. Your biggest concern is purchase price: how much you are offering for the property. You need to take into consideration certain information prior to calculating the purchase price. Have your agent do a CMA (Comparative Market Analysis), so you know you are not offering too much, or risk offending the seller with an offer that’s too low. You also need to consider the amount of escrow deposit. Escrow is money held aside until conditions of a contract are met or broken. As a buyer, you put down money to ensure the seller you will still be there at closing. There are two times when you as a buyer make such a deposit. First is with the offer as an earnest money deposit. The second is at the time of the Purchase & Sales Agreement. This is a much larger amount, usually 3-5% of the purchase price, less what you put down with the offer as earnest money.

Times for performance. This details the where and when for the different parts of the transaction: how long the offer is good for, amount of time after accepted offer to have a home inspection (usually 7 days), date to sign the Purchase & Sales Agreement (usually 12-14 days from accepted offer allowing time to discuss negotiations of inspection results), date for a written commitment letter for your financing (usually 30-45 days from accepted offer) and finally, a date for the closing (45-60 days from accepted offer). These dates may change due to unforeseen circumstances; written and signed notification is needed from both parties in the form of an extension in order to change those dates.

Contingencies. Your offer and subsequent purchase are contingent upon certain conditions. There are two major contingencies built in to every offer; if not satisfied, you may walk away and your escrow deposit money is returned. The first contingency is your financing. If you are not able to get a satisfactory loan by a certain date, provided you applied for at least one, then you are not obligated to purchase. The second contingency is the home inspection. If you are not satisfied with the condition of the home after inspection, and are unable to negotiate a new deal with sellers, again you are not obligated to purchase. Other contingencies include the sale of your current home, property appraisal at or above purchase price, passing Title V inspection, etc.

Property Inspections. A buyer in Massachusetts has the right to conduct a variety of inspections on a property for which they've made an offer. The buyer is responsible for paying for these inspections and must conduct them within the time frame agreed upon in the Offer to Purchase. Traditionally, the buyer has up to ten (10) days to have the inspections performed and then no more than two (2) days – often less – to terminate the purchase if any inspection uncovers material defects.

Inspections that buyers may conduct include, but are not limited to, private sewerage systems and private wells, whole house inspections for structural and other defects, termites and pests, radon gas, and lead paint. Please note that Massachusetts state law requires that homes built before 1978, in which a child under six will live, must be de-leaded. If a home you are purchasing is not de-leaded, then who pays for the de-leading may be a point of negotiation.

The Purchase and Sale Agreement. Once inspections are completed and the decision is made to move forward with the purchase, the transaction is defined in more detail with a more lengthy Purchase and Sale Agreement – often called the P&S. Traditionally, the P&S is signed with fifteen (15) days of the Offer to Purchase being accepted. At the time the P&S is signed, the buyer must provide another deposit toward the purchase of the home that usually amounts to at least 5% to 10% of the total purchase price. This deposit, like the earlier “earnest” deposit, is kept in an escrow account by the seller’s real estate agency or attorney.

Once the P&S is signed, it becomes the guiding contract for the purchase, essentially replacing the terms of the Offer to Purchase. Among other things, the P&S spells out the sellers and buyer’s rights and responsibilities, all negotiated terms and concessions, and the date, time and place the property deed will be conveyed from the seller to the buyer. The P&S also may include contingencies under which the buyer can withdraw from the agreement without losing his or her deposits. An example of such a contingency would be the buyer’s inability to obtain financing by a particular date.

Mortgage Commitment. The Mortgage Commitment is a written letter from your lender verifying your ability to purchase the house financially and that the home you are going to buy has been professionally appraised (a closing cost for the buyer) at or above the value of the loan. *This is a very important date in the process that cannot be overlooked.* If this date passes without receiving the letter or extending the date and you are then unable to secure a satisfactory mortgage, **you can lose your escrow deposit money.** The Commitment Letter is typically due 7-10 days before closing. It’s also important to note that this letter does not guarantee the funds will be there for you on closing day. Banks will expect most conditions to the loan to be satisfied, conditions being items such as giving an explanation for a deposit. The Commitment Letter may still have certain conditions needing to be met, so for this reason, the loan is still not set in stone. Also, banks are very careful when they loan money and want to make sure that at the time of delivery, you are still employed and/or haven’t adversely affected your credit. This is also a good place to re-emphasize

the power of a good pre-approval. The more information your lender gets up front, the less chance of obstacles to overcome once the transaction is underway.

The Closing. The sale and purchase of a property ends with the closing – that time and place where you sign all the final paperwork needed to convey the deed to a new owner and pay the funds due to the seller and the real estate agents involved. Usually, the attorney representing the buyer's lending institution handles the closing.

Before the closing can take place, a title search must be conducted on the property to make sure the seller has the legal right to convey the deed. Depending on where you are buying in Massachusetts, the title search may be done by the lender's attorney or by a title search company paid for by the seller. There also are other things that must be completed before closing can take place, including the buyer securing hazard insurance on the property and the seller having the smoke and carbon monoxide detectors inspected and certified.

In preparation for the closing, the seller and buyer should receive a detailed list of the closing costs they are responsible for paying. In the 24 hours before the closing, the buyer also should receive an exact amount they will owe at closing and instructions on how to pay that amount. Usually, it is paid with a certified or bank check.

While sellers don't always attend closings, the buyer should expect to attend the closing and should bring the required closing funds, as well as their personal checkbook to cover any last-minute adjustments or payments.

In Massachusetts, you are not legally considered the new owner of a property until the deed with your name has been filed with the local Registry of Deeds. Most closing attorneys will make every effort to get the deed filed very quickly, but if your closing happens late in the afternoon then the filing of the deed could be delayed. Often, buyers and sellers can work through their attorneys to make sure arrangements have been made ahead of time for a buyer to move into the house if there is a delay in filing the deed.