FIND AND PURCHASE THE HOME OF YOUR DREAMS

buyer's guide

YOUR COMPLETE GUIDE TO THE HOME-BUYING PROCESS

HOW LONG DOES IT TAKE TO CLOSE ON A HOME?

If purchasing a property with a mortgage, expect it to take up to six weeks to close on your new home. Cash transactions are much faster; usually all necessary arrangements can be handled in two weeks or less.

WHY DO I NEED A REALTOR?

The job of a good Realtor is to guide you through the process, helping you not only find your dream home but negotiate the best price and terms for purchase and help you make it all the way to the closing table. I'll coordinate with the sellers, your lender, the title company, insurance agents, and more to be sure we stay on track. Moreover, I'll provide tools, such as a contract-to-close digital check lists, vendor referrals and more to help you every step of the way.

Welcome! You are about to embark on the exciting journey of finding your ideal home. Whether it is your first home or your tenth home, a retirement home, or an investment property, I will make your home-buying experience fun and exciting. I can help you find the ideal home with the least amount of hassle; and I am devoted to using my expertise and the full resources of my office to achieve these results!

Purchasing a home is a very important decision and a big undertaking in your life. In fact, most people only choose a few homes in their lifetime. I am going to make sure that you are well equipped and armed with up-to-date information for your big decision. I am even prepared to guide you through every phase of the home-buying process. This packet gives you helpful information during and after your transaction. Use its reference pages, timelines and agency explanations as an invaluable guide on your home-buying journey.

So let's take an exciting journey together! I look forward to meeting your real estate needs every step of the way!

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GET READY TO BUY A HOME

12 months out

Check your credit score. Get a copy of your credit report at annualcrediteport.com or CreditKarma.com. The three credit bureaus (Equifax, Experian, and TransUnion) are each required to give you a free credit report once a year. A Federal Trade Commission study found one in four Americans identified errors on their credit report, and 5% had errors that could lead to higher rates on loans. Avoid last-minute bombshells by checking your score long before you're ready to make an offer. And work diligently to correct any mistakes. Even better: start the pre-qualification process with a lender now to KNOW you will qualify for a loan.

Determine how much you can afford. Figure out much house you can afford and want to buy. Lenders look for a total debt load of no more than 55% of your gross monthly income (called the debt-to-income ratio), depending upon the type of loan you need. And there are only a few loan programs for borrowers with this much debt, with greater options available to veterans. This figure includes your future mortgage and any other debts, such as car loans, student loans, or revolving credit cards. There are plenty of calculators online to help you determine what you can afford. If you're pushing the limits, start reducing your debt-to-income ratio now.

Make a savings plan. Most conventional mortgages require a 5% or greater downpayment and FHA loans only require 3.5% down. But, in addition to downpayment, you'll need cash for closing costs, pre-paid expenses and inspections when it comes time to buy your home. You'll likely need to start saving now to be ready.

As you're planning your savings strategy, keep in mind that banks like you to "season" your money. That is, they like to see that you've had stable funds in your account for 60 to 90 days before applying for a loan. Don't worry: You can still use a financial gift from a family member or bonus received near the time you buy.

9 months out

Prioritize what you most want in your new home. What's most important in your new home? Proximity to work? A big backyard? An open floor plan? Being on a quiet street? You'll make a much better decision on what home to buy if you focus on your priorities. If it's a joint decision, now is the time to work out any differences to avoid frustration and wasted time. Perhaps most important: Know what trade-offs you're willing to make.

Research neighborhoods and start visiting open houses. But now's when the fun begins, too. Use property listing sites, such as HAR.com, to find out about neighborhoods, public transport, and cost of living.

Start visiting open houses to get an idea of what kind of homes are in your price range and what neighborhoods appeal the most. Seeing potential homes will also keep you motivated to continue reducing your debts and saving for your downpayment.

Start a home maintenance account. Even though you're already saving for the big expenses that come with a home, start the good habit now of putting a little aside each month to fund maintenance, repairs, and home emergencies. It's bad enough to have to call a plumber. It's worse if you're paying credit card interest on that plumbing bill.

6 months out

Collect your loan paperwork. Banks are very particular when it comes to mortgage loans. They demand a lot of paperwork. What they'll want from you includes: W-2 forms — or business tax return forms if you're self-employed — for the last two to three years, personal tax returns for the past two to three years, your most recent pay stubs, credit card and all loan statements, your bank statements, addresses for the past five to seven years, brokerage account statements for the most recent two to four months, and your most recent retirement account statements, such as 401(k)

3 months out — but sooner is better!

Get pre-approved for your loan. If you haven't already started working with a lender to get a pre-approval letter, now is the time. While a lender can not require you to submit loan paperwork for pre-qualification, doing so will make your offer stronger and minimize the opportunities for surprises. Most lenders will note whether they've verified your detail in writing or verbally on your pre-qualification letter.

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PRE-QUALIFICATION AND PRE-APPROVAL

Many buyers apply for a loan and obtain approval before they find the home they want to buy. Why?

Pre-qualifying will help you in the following ways:

- Generally, interest rates are stable for a period of time. You will know in advance what your estimated payments will be on offers you choose to make.
- An "in writing" pre-qualification will show sellers you're serious and prepared by providing key documentation — such as past taxes or income verification — to the lender.

Pre-approval completed by a lending underwriter will help you in the following ways:

- A seller may choose to make concessions if they know that your financing is secured. You are like a cash buyer, and this may make your offer more competitive.
- Select the best loan package without being under pressure.

HOW MUCH CAN YOU AFFORD?

There are five key factors to consider:

1. The down payment
2. Your ability to qualify for a mortgage
3. The closing costs associated with your transaction
4. The expenses for home inspections and repairs or updates you want to make immediately
5. Pre-paid expenses required for your escrow account

DOWN PAYMENT REQUIREMENTS

Most loans today require a down payment of between 3.5% and 5% depending on the type and terms. If you are able to come up with a 20% or greater down payment, you may be eligible to eliminate mortgage insurance and waive escrowing taxes and insurance.

CLOSING COSTS, PRE-PAID EXPENSES AND ESCROW FEES

You will be required to pay fees for loan processing and other closing costs. These fees must be paid in full at the final settlement, unless you are able to include them in your financing. Typically, total closing costs will range from $3,500 - $5,000. We'll work together to come up with a preliminary estimate of costs and your lender should provide a more concrete assessment as part of both your pre-qualification and loan estimate. Buyers should expect to pre-pay for the property taxes for the rest of the year and the annual homeowners insurance fee at closing. Additionally, many lenders require an escrow account deposit equal to three months of taxes and three months of insurance in addition to pre-paid interest for the month of closing.

QUALIFYING FOR THE MORTGAGE

Most lenders require that your monthly payment range between 25-28% of your gross monthly income. Your mortgage payment to the lender includes the following items:

- The principal on the loan (P)
- The interest on the loan (I)
- Property taxes (T),
- The homeowner's insurance (I).

Your total monthly PITI and all debts (from installments to revolving charge accounts) should range between 33-38% of your gross monthly income. These key factors determine your ability to secure a home loan: Credit Report, Assets, Income, and Property Value.

INSPECTIONS, EARNEST MONEY & CASH FLOW

While most funds related to the purchase of the home will be due when you close, you need to be prepared to pay some items as soon as you get into contract. These include:

- **Earnest Money** - consider this a pre-payment of a portion of your down payment. The amount of Earnest Money you will pay is always negotiable, but it's prudent to budget up to 2% of the purchase price of the home.
- **Inspection Fees** - plan to get the home inspected during the contract's option period. Depending upon the types of inspections needed and inspectors you use, costs will likely start at $425. If you terminate a contract, your inspection fees won't be refunded nor credited to a future contract.
- **Option Fee** - you'll be required to pay an option fee, which is non-refundable but may be credited to downpayment at closing, as soon as you enter into contract. The amount of your option fee is negotiable and typically varies with the value and desirability of the home and the market.
- **Appraisal Fee** - most lenders require you to pay for the appraisal when it is performed. This cost is usually less than $550 and you may be able to charge to your credit card.

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MAKING AN OFFER

Once you have found the home you wish to purchase, you will need to determine what offer you are willing to make for the home. It is important to remember that the more competition there is for the home, the higher the offer should be – sometimes even exceeding the asking price. Remember, be realistic. Make offers you want the other party to sign!

Purchase price is not the only factor that we'll consider in putting together a strong offer for the home you want to purchase. There are many components that make up the complete package. They include:

- downpayment percentage
- option period duration
- option fee
- earnest money amount
- home warranty contribution from seller
- who pays for title insurance
- seller contributions to closing
- days for lender credit approval
- closing date
- non-reality items addendum
- lease back to sellers

To communicate your interest in purchasing a home, we will present the listing agent with a written offer. When the seller accepts an offer it becomes a legal contract. When you write an offer you should be prepared to pay an earnest money deposit. This is to guarantee that your intention is to purchase the property.

After we present your offer to the listing agent it will either be accepted, rejected, or the seller will make a counter-offer. This is when we will negotiate terms of the contract if necessary.

The purchase agreement or contract constitutes your offer to buy and, once accepted by the seller, becomes a valid, legal contract. For this reason, it is important to understand what is written on the contract offer. Most often, we'll use promulgated forms developed by the Texas Real Estate Commission for the purchase contract.

Contract Contingencies

Just as there are many components that go into an offer, there are also many contingencies that protect you, the buyer, throughout the contract process. Each one must be negotiated separately as part of your offer; so we'll be sure to cover the bases to be sure we're writing an contract that meets your needs.

The first, and most significant contingency, is the **option period.** During this negotiated number of days from the effective (start) date of the contract, buyers can walk away from a contract for any reason - or for no reason at all! Be clear: this is a privilege afforded to the buyer *only*. Once entering a purchase agreement, the seller does not have option where they can simply change their mind.

Other contract contingencies are related to financing. **Financing contingencies** are divided into two categories: (1) the willingness of the mortgage company to lend money to *you* and (2) the willingness of the mortgage company to accept the contract *property* as collateral for the loan.

If there is a financing contingency as part of your offer, it will allow a specific number of days for you to notify the seller if you are unable to get a loan on the exact terms (including rate and origination fees) specified in the contract. The property will also have to meet the lender's requirements including, but not limited to appraisal value and property condition. We'll work closely with your lender to determine what specifics to include in an offer and a seamless contract to close process.

WHAT IS AN ESCROW ACCOUNT?

An escrow account is a neutral depository held by your lender for funds that will be used to pay expenses incurred by the property, such as taxes, assessments, property insurance, or mortgage insurance premiums which fall due in the future. Typically, you will pay one-twelfth of the annual amount of these bills each month with your regular mortgage payment. When the bills fall due, the lender pays them from the special account. At closing, it may be necessary to pay enough into the account to cover these amounts for several months so that funds will be available to pay the bills as they fall due. Annually, expect adjustments to your payments to account for changing taxes and insurance bills.

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CONTRACT TO CLOSE

Offer Accepted

Option Period

inspections

post-inspection negotiations

homeowners insurance

Mortgage

formal loan application

loan estimate issued

verification of income, assets & debts

appraisal

final credit summary

Title

title commitment ordered

survey

title search

Underwriting

file submitted to underwriting

loan approved

closing disclosure issued

Closing

bring certified funds from *verified assets* for downpayment and closing costs

sign loan and deed paperwork

loan funds

legal recording

seller is paid

owner possession

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HOME INSPECTION

If you are purchasing a resale property, we highly recommend that you have a professional home inspector conduct a thorough inspection. The inspection will include the following:

- Appliances
- Plumbing
- Electrical
- Air conditioning and heating
- Roof and Attic
- Foundation
- General Structure

The inspection is not designed to criticize every minor problem or defect in the home. It is intended to report on major damage or serious problems that require repair. Should serious problems be indicated, the inspector will recommend that a structural engineer or other professional inspect it as well.

Your home cannot "pass or fail" an inspection, and your inspector will not tell you whether he/she thinks the home is worth the money you are offering. The inspector's job is to make you aware of repairs that are recommended or necessary.

Some properties may benefit from more specific types of inspections including those for wood destroying inspects such as termites, sewer (under the house) plumbing, stucco, pools, roofs and more. Expect additional time and cost for each of these subsequent inspections but keep in mind that understanding the condition of the property you are investing in is well worth it.

The seller may be willing to negotiate completion of repairs or a credit for completion of repairs, or you may decide that the home will take too much work and money. A professional inspection will help you make a clear-headed decision. In choosing a home inspector, consider one that has been certified as a qualified and experienced member by a trade association.

I recommend being present at the inspection. This is to your advantage. You will be able to clearly understand the inspection report, and know exactly which areas need attention. Plus, you can get answers to many questions, tips for maintenance, and a lot of general information that will help you once you move into your new home. Most important, you will see the home through the eyes of an objective third party.

HOME WARRANTY PROTECTION

New Home Warranties:

When you purchase a newly built home, the builder usually offers some sort of full or limited warranty on things such as the quality of design, materials, and workmanship. These warranties are usually for a period of one-year from the purchase of the home with structural warranties that extend for up to ten years.

At closing, the builder will assign to you the manufacturer's warranties that were provided to the builder for materials, appliances, fixtures, etc. For example, if your dishwasher were to become faulty within one year from the purchase of your newly built home, you would call the manufacturer of the dishwasher – not the builder. If the homebuilder does not offer a warranty, BE SURE TO ASK WHY!

Resale Home Warranties:

When you purchase a resale home, you can purchase warranties that will protect you against most ordinary flaws and breakdowns for at least the first year of occupancy. The warranty, also known as a residential service contract, may be negotiated as part of your initial offer. Even with a warranty, you should have the home carefully inspected before you purchase it.

A home warranty program will give you peace of mind, knowing that the major covered components in your home will be repaired if necessary. Some home warranties also include discounts or complementary services such as re-keying or maintenance services. If you choose to purchase - or have the seller pay for - a home warranty, I'll provide you information on some different options available well in advance of closing.

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THINGS TO REMEMBER WHILE WAITING TO CLOSE

Between the time you are initially approved for a mortgage and when you close on your new home, the lender will continue to check your credit, assess your personal worthiness for a loan. Many lenders even check buyers' credit just hours before closing. Because of this it is very important that you pay attention to these rules from the time you pre-qualify for a loan until the day after you close on your dream home:

1. Do not change jobs, become self-employed or quit your job.
2. Do not buy a car, truck or van (or you may be living in it)!
3. Do not use charge cards excessively or let your accounts fall behind.
4. Do not spend money you have set aside for closing.
5. Do not omit debts or liabilities from your loan application. This is loan fraud and it is illegal and highly punishable!
6. Do not buy furniture. Most especially, do not buy furniture on credit or expensive pieces that will significantly affect your account balances.
7. Do not originate any inquiries into your credit.
8. Do not make large deposits without first checking with your loan officer. This includes any gifts for down payment assistance or otherwise.
9. Do not change bank accounts.
10. Do not co-sign a loan for anyone.

TITLE COMPANY PROCESS

Now that you have decided to buy your home, what happens between now and the time you legally own the home? A Title Company may handle the following items.

Earnest Money – An agreement to convey starts the process once it is received at the Title Company. The Escrow Officer will hold your Earnest Money and apply the funds to your downpayment and closing cost.

Tax Check – What taxes are owed on the property? The Title Company contacts the various assessor-collectors.

Title Search – Copies of documents are gathered from various public records: deeds, deeds of trust, various assessments and matters of probate, heirship, divorce, and bankruptcy are addressed.

Examination – Verification of the legal owner and debts owed.

Document Preparation – Appropriate forms are prepared for conveyance and settlement.

Settlement – An Escrow Officer oversees the closing of the transaction: seller signs the deed, you sign a new mortgage, the old loan is paid off and the new loan is established. Seller, agents, attorneys, surveyors, Title Company, and other service providers for the parties are paid. Title insurance policies will then be issued to you and your lender.

Title Insurance - There are two types of title insurance:

- Coverage that protects the lender for the amount of the mortgage,
- Coverage that protects the equity in the property.

Both you and your lender will want the security offered by title insurance. Why?

Title agents search public records to determine who has owned any piece of property, but these records may not reflect irregularities that are almost impossible to find. Here are some examples: an unauthorized seller forges the deed to the property; an unknown, but rightful heir to the property shows up after the sale to claim ownership; conflicts arise over a will from a deceased owner; or a land survey showing the boundaries of your property is incorrect.

For a one-time charge at closing, title insurance will safeguard you against problems including those events an exhaustive search will not reveal.

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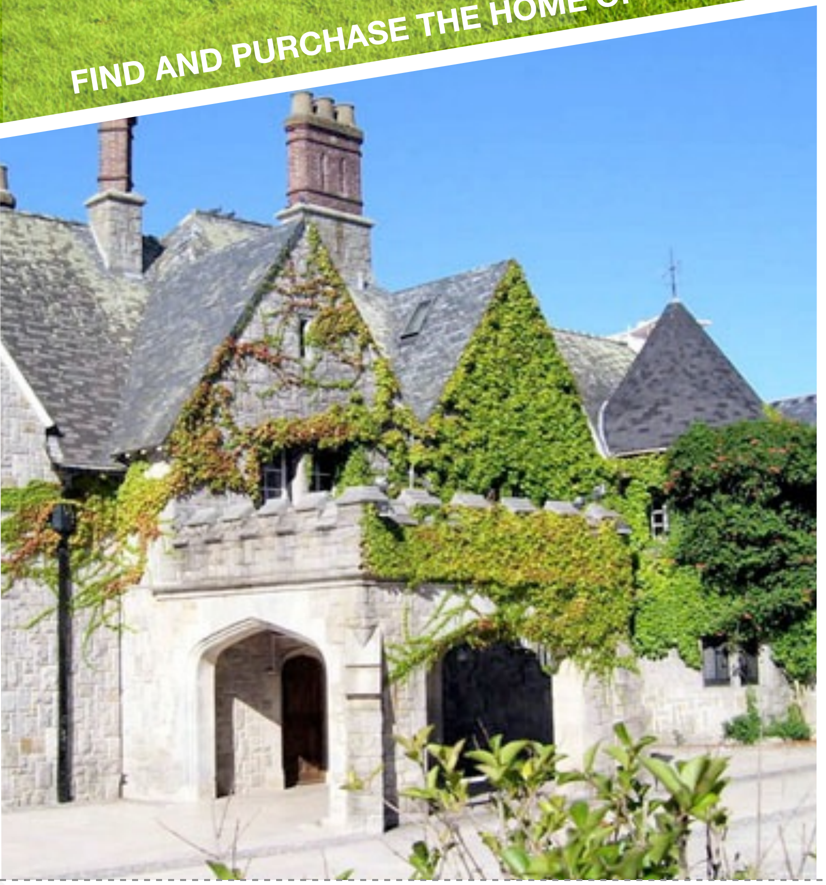

CLOSING

A “closing” is where you and I meet with some or all of the following individuals: the Seller, the Seller’s agent, a representative from the lending institution and a representative from the title company, in order to transfer the property title to you. The purchase agreement or contract you signed describes the property, states the purchase price and terms, sets forth the method of payment, and usually names the date and place where the closing or actual transfer of the property title and keys will occur.

If financing the property, your lender will require you to sign a document, usually a promissory note, as evidence that you are personally responsible for repaying the loan. You will also sign a mortgage or deed of trust on the property as security to the lender for the loan. The mortgage or deed of trust gives the lender the right to sell the property if you fail to make the payments. Before you exchange these papers, the property may be surveyed, appraised, or inspected, and the ownership of title will be checked in county and court records.

At closing, you will be required to pay all fees and closing costs in the form of “guaranteed funds” such as a Cashier’s Check. Your agent or escrow officer will notify you of the exact amount prior closing.

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