

# *Home Buying Guide*



## *An Informational Handbook*

*Provided as a courtesy of:*



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# Guide to Buying Your Home

## **Introduction**

This guide is created for our Buyers as a courtesy of ABetterWay.com, Inc. We feel that this information presents a comprehensive list of guidelines you will need to by your new home. In addition to this guide, you will have access to a professional real estate representative to answer any questions that you might have. We encourage you to thoroughly question the various professionals that you will encounter in the home purchase process, including (but not limited to) the loan officer, home inspector, and escrow agent. These persons will provide in-depth explanations of subjects that can only be generally discussed here. These professionals are valuable sources of information and guidance in their areas of expertise.

## **Market Conditions**

In a “Buyers Market” the number of homes available to buyers exceeds the demand for housing. In a “Seller’s Market”, the demand for housing exceeds the number of homes available to buyers and homes sell more quickly than in a “Buyer’s Market”. A “Seller’s Market” is always better for the buyer because there are many more sellers with available property to sell than buyer’s competing for homes. As a buyer, an important market variable to consider is time of year. Homes are put on the market at different rates depending on the time of year. Families with children aren’t as likely to take their kids out of school to move during the school year; therefore, there are likely to be fewer homes on the market during the school year. If you plan to buy a home during the highest demand months, then you will likely be paying a higher price. Many real estate websites are available to offer updated information on the current real estate market conditions.

## **Pre-Qualification and Pre-Approval**

As a Buyer, it is important for you to know and understand the difference between having Pre-Approved status and Pre-Qualified status. Many sellers are concerned with home security and do not want to put forth the effort to show their home to Buyers who may not qualify to purchase their home. As a Buyer you must realize that you may not be able to see many houses if you are not Pre-Approved or at least Pre-

Qualified. Pre-Qualification consists of answering a short series of questions regarding your income, assets, and debts. The lender then gives you a ballpark figure of what loan amount they would qualify for. This is not a commitment from the lender, but it is a good starting point for you to know “how much house” you can afford. Pre-approval is the lender’s conditional commitment for a loan of a certain amount at a certain rate. This commitment has a time limit and usually a few conditions such as an acceptable appraisal and final underwriting to ensure there are no changes or hidden problems.

**Pre-qualification** provides a general guideline of the loan amount a lender is willing to provide. It does not constitute a final loan approval. Pre-qualification is a positive step, but it does little to prove to sellers that you can afford to buy their property.

**Pre-approval** means you have completed a loan application, had your credit checked and that a lender has approved your loan for a specific amount and interest rate. You can then present this document to a seller as proof that you can afford his or her property. Pre-approval helps signal to sellers that you are making a serious offer. Be aware that final approval may depend upon property appraisal, existing liens, inspections or other factors.

## **Real Estate Agents**

Real Estate Agents can help in finding you a home, but real estate agents have to be paid. Agents have access to computer databases, such as the MLS, containing information on all regional property sales and can accurately ascertain the value of property in any area. In transactions where there is a Real Estate Agent representing the Seller, the Seller normally pays the agents out of the sale proceeds (though this may vary by region). However, if the Seller is selling the home without an agent, then the Seller may not be willing to pay the Buyer’s agent. The Buyer may have to pay the agent himself. When a Buyer is considering obtaining an agent, the Buyer should question the agent on how the agent’s fees will be paid in the event that the home purchased is “For Sale by Owner.”

## **Seller’s Agent**

A Seller’s agent represents only the seller, and has no duty to potential buyers other than those prescribed by law, such as (in most states) to

reveal any home defects the agent is aware of to the Buyer. The Seller's agent is typically paid by the Seller from the proceeds of the sale of the property. An agent can be very helpful to the Seller in setting an accurate price for the property due to the agent's knowledge of the local real estate market.

The Seller's agent, while helpful, must be paid a commission from the proceeds of the sale. The fee is negotiable, but through typical Real Estate firms, it's 6% of the sale price of the property. When working with a traditional real estate agent, if your home sells for \$200,000, \$12,000 will be paid in commissions at closing! This is money that you would be keeping for yourself if you sold your home without an agent or used the discounted services of our affiliated agency. Selling without an agent requires being home more often during the day to show the house, meet inspectors, etc. (difficult if you and your spouse work), and requires you to take on the other procedural responsibilities such as scheduling termite inspections, providing counter-offers, etc. that would typically be handled by your agent. Your assigned agent could be a valuable resource for you in setting the price on your house and advising you about the local housing market (whether it is busy, slow, etc.), and how this should affect your mindset in regards to price. **An agent is nice, but so is keeping that 6% of your money!** Your decision on whether or not to use an agent will depend on your circumstances and priorities. **The benefit to being an ABetterWay.com member is you can choose the level of support you wish to receive (if any) from a professional real estate agent depending upon your personal circumstances.**

### **Buyer's Agent**

A Buyer's agent represents only the Buyer, and has no duty to the Seller. In a traditional listing, the Buyer's agent is paid by the Seller from the proceeds of the sale of the property (part of the 6% paid by the Seller to the listing agent is paid to the Buyer's agent). A Buyer's agent can be very helpful to the Buyer in determining whether a fair price is being asked by the Seller, due to the agent's knowledge of the local real estate market. If the Buyer's agent is going to be paid by the Seller (clarify this at the outset), there is no real downside for a buyer using an agent and a lot of potential benefit.

### **"Dual" Agent**

A dual agent is a real estate agent who represents both buyer and seller.

The dual nature of the agency relationship is typically disclosed in a disclosure statement given to each party, which must be agreed to and signed by each party. The agent facilitates the sale, working for both parties, but does not have a higher duty to one party than the other.

### **Over-buying the first time**

A large, spectacular home with little or no furniture tends to be empty and cold. A life where almost every cent of your earnings goes to support your home can become very stressful and can wear on a family. Pushing yourself right up your limits leaves you exposed when there are unexpected changes to your personal income or the inevitable changes to the economy occur. It is always a safe bet to leave yourself some breathing room!

### **Setting Your Budget**

For many Buyers, the excitement of looking for a new home causes them to blindly search for homes without taking the necessary steps. Although it's tempting to dive in and begin searching for your dream home, serious buyers know that it's better to start with some budgeting. Most people finance at least a portion of their home. If you are a part of this majority and need to finance the question to ask is, how much mortgage is right for you? The amount of house you can afford usually depends on four distinct factors:

- 1) Your credit history
- 2) Your monthly income
- 3) Your down payment
- 4) Available mortgage rates

Balancing personal and family goals with a sound financial strategy will result in the best home buying decision. It's perfectly acceptable to pursue your dream home, but first run the numbers to avoid financial nightmares. Once you know the numbers, you can begin to look at the homes that are right for you.

When setting your budget, an important aspect to take into account are credit scores. Buyers who have excellent credit often receive reduced interest rates or even save on mortgage points. Having poor credit ratings means that you will have a higher interest rate, resulting in thousands of dollars more in interest over the term of the loan.

## **Waiting for the “Perfect” Home**

Many first time buyers make the mistake of thinking that they will find a home that meets 100% of their wants and needs if they look around long enough. With the thousands of variables available in housing, including location, style, size, amenities and condition, this is almost always an unrealistic goal. There are two major problems with this strategy: First, these buyers pass up homes that meet 90% or more of their requirements only to eventually purchasing an inferior home because they are so worn out from searching. Second, while they are waiting for the "perfect" home, housing market prices, and often mortgage rates continue to rise. To avoid these problems, determine the most important of your needs and the most desired of your wants, then select a home that meets the majority of them.

## **Get pre-approved, not just pre-qualified**





Pre-approval demonstrates to sellers that you can afford their home, and boosts your credibility and negotiating strength. Over time the real estate transaction process has changed and evolved, today prequalification and pre-approvals are a necessary part of the home buying process. Not only will it give you an exact price range for your purchase, pre-approval will add a great deal of strength to your offer.

**Pre-qualification** provides a general guideline of the loan amount a lender is willing to provide. It does not constitute a final loan approval. Pre-qualification is a positive step, but it does little to prove to sellers that you can afford to buy their property.

**Pre-approval** means you have completed a loan application, had your credit checked and that a lender has approved your loan for a specific amount and interest rate. You can then present this document to a seller as proof that you can afford his or her property. Pre-approval helps signal to sellers that you are making a serious offer. Be aware that final approval may depend upon property appraisal, existing liens, inspections or other factors.

## **Real Estate Attorneys/Title Companies**

Though it is possible to sell a home without hiring an attorney, it is often useful to do so for one or more of the following functions:

-  Providing legal advice on real estate matters.
-  Reviewing documents.
-  Representing you at the “closing,” or handling/hosting the closing.
-  Discuss the fees your lawyer or title company will charge for tasks including review of documents you have prepared, preparation of additional documents if necessary, representation at closing

### **Researching Neighborhoods**

The quality of the neighborhood is frequently more important to a homebuyer than the actual home. Even if the neighborhood is not a high priority, these are some tips to aid you in choosing whether a neighborhood meets your wants and needs. Research which school district serves the new home, and remember that school districts often change with frequent rezoning. Even if you do not have children, schools are an important issue for resale and should always be taken into account. Check zoning laws and neighborhood fees so as to not be surprised by fees that you had not budgeted for.




### **Searching for Properties**

In the past, homebuyers typically found properties through traditional means such as newspapers, real estate brochures, and yard signs. Today, more than 74 percent of buyers begin their home search online at real estate Web sites like [abetterway.com](http://abetterway.com). The reason is simple, in minutes, buyers can research hundreds of properties and quickly eliminate those that don't meet their needs. In fact, one study showed that traditional buyers visited 15.4 homes on average before buying, while Internet buyers visited only 6.1 homes.

### **Visiting Properties**

After searching the Web, you probably have found several properties that meet your general criteria. You know the beds, bath and square-foot basics. Now, your task is to take a closer look and compare individual homes to see which one best meets your needs. At this point, there are steps buyers should take for more effective comparison shopping

and to limit the “emotional buyer” syndrome that can lead to overpaying and buyer’s remorse. Here are some key points for smart buyers:

-  Have your priorities straight before visiting a house. For example, square footage may be up for debate, but not school districts or security systems. Knowing what is most important in advance will keep your house visits on track.
-  Separate the structural from the superficial. The seller probably has applied a fresh coat of paint and planted some flowers, but that won't make up for limited closet space, dark rooms or an impractical floor plan. Now is not the time to hold back, sellers should expect you to look in cabinets, open and close doors and windows, and check major appliances. Disclosure laws are in place, but it’s still in your best interest to ask sellers outright if major repairs are needed or have recently been done.
-  Use the tools at your disposal wisely. Some savvy buyers carry a digital camera and take photos to help them remember property details and features. Photos are also useful if a dispute arises as to condition of the property, and can be used as evidence if the seller removes fixtures or furnishings. To avoid a possible dispute, ask the seller for a list of what’s included in the sale. Also, a buyer’s checklist can be a helpful way to organize your thoughts on the home, property, neighborhood and schools.

## **Making an Offer**

Now that you’ve gotten pre-approved for a mortgage and found a property you like, you’re ready to make an offer. But how much should you offer? Check recent sales of comparable neighborhood properties. Look for homes of roughly the same age, style, square footage and bedrooms/baths. First, check the active listings summary to see how many properties are included and how similar they are to your selected property. Your visit to the home should give you an idea of the property’s condition and what repairs it may need. If you used a buyer’s checklist, review it for any reasons to raise or lower your estimate of value.

## **Be prepared to compromise**

Approaching negotiations with a confrontational attitude is unlikely to yield positive results. According to negotiation experts, a realistic goal heading into a negotiation is to find a mutually beneficial solution in

which both parties can “win.” In order to achieve this goal, you may have to sacrifice something to reach agreement at some point. Be sure to identify in advance what you will and will not give up to ensure you’re happy with the deal in the long term.

### **Back up your offer**

When offering to buy a property, you don’t have to give an explanation as to how you arrived at a particular dollar amount. But you may fare better in negotiations if you have some objective basis, such as examining comparable sales. The best way to show a seller you mean business is to accompany your offer with a purchase contract and a substantial "good faith" deposit. You should be prepared to walk away from terms you do not feel are acceptable. You may be reluctant to give up after all the time you’ve invested in the buying process, but tense negotiations can frequently benefit from a cooling-off period. Walking away or letting the other party walk away may be uncomfortable, but it is always preferable to accepting terms you can’t live with.

### **Choosing a Lender**









In the process of purchasing a home, some buyers get so caught up in price negotiations that they overlook the importance of getting the right mortgage. Paying careful attention to mortgage and closing costs can help you to save on your initial and ongoing monthly expenses. Smart buyers should begin researching the various types of loans and terms available and learn which options best meet their needs. You can get a loan through banks, credit unions or a mortgage broker. Large banks are reputable and offer competitive interest rates, but may have more stringent lending requirements than some alternatives. Credit Unions and smaller banks may offer more flexibility, but sometimes can’t offer rates as low as larger competitors. Mortgage brokers are service providers who don’t lend money directly. Instead, they provide a service by matching your needs with available loans from different sources. A broker’s access to several lenders can mean a wider selection of loans and terms for you, and brokers generally contact several lenders for you. Here are aspects to consider when choosing a lender and the loan they offer:



What information you are required to provide to your lender



Monthly payments and interest rates


-  The loan's annual percentage rate (APR). The APR is higher than the corresponding interest rate because it includes applicable points and other fees, expressed as an annual rate.
-  Your down payment amount and total costs of the loan
-  Whether your loan is adjustable or fixed-rate
-  Whether or not you should pay points (loan origination fees)
-  Total fees and what's covered by each fee
-  Whether you need private mortgage insurance (if your down payment is less than 20 percent)
-  In addition to providing a loan, your mortgage lender should also help you understand your options and help you choose the financing and terms that best fit your needs. Don't be afraid to ask questions. For more information on mortgages, FREE pre-approval or a competitive rate quote.
-  Buyers and sellers must agree on a mutually acceptable date to close the sale. Buyers should make sure the closing date occurs before any established interest rate lock-in period expires.

### **Shortcutting the Home Inspection Process**

This can involve skipping a whole house inspection completely in order to save the relatively small cost involved or it may involve using a friend or relative with limited experience to conduct the inspection. In either case you run the risk of overlooking potentially expensive, and frequently hazardous defects in the property. Invest the \$200 to \$500 for a professional inspection so that you will have the peace of mind of knowing that you are buying a safe and pest free home.

### **Buyer's Inspections**

Property Condition options of your contract may include one or more of the following:

-  Buyer accepts property "as-is";

 Buyer will conduct desired inspections; or


 Buyer accepts “as is” if Seller will make certain repairs.


Most Buyers will want the house inspected, and will (and should) have second thoughts if a Seller attempts to sell the house while forbidding any inspections, unless there are special circumstances. Most lending institutions also require inspections before they will make a loan to the prospective Buyer. Option two will therefore most likely be used in all home sales. Typical inspections include pest (termite) inspection, moisture inspection and contractor inspection with a home inspection company (includes electrical, plumbing, heating systems, roof inspection, swimming pool inspection, and foundation inspection).

If the Buyer’s inspections reveal various defects, the parties are free to re-negotiate the Contract, for example lowering the sale price in order to allow for future fixes that will be necessary, or having the Seller agree to fix defects prior to the sale.


### **Closing the Deal**

Because of inspections, approvals, and appraisals taking place in the days before closing, many issues naturally surface during this stage. As a buyer, remain patient when these issues arise. In fact, some issues typically work to the buyer’s advantage. For example, an inspection may reveal that significant roof repairs are needed. To keep from losing the sale the seller may repair or replace the roof, or provide a significant break in sales price. Here are some other steps you can take for a successful closing:






 Review the results of any property inspections to ensure all work is satisfactorily completed, and clearances for completed work provided. In addition to home inspections, this might include inspections for termites or lead-based paint.

 Two weeks before closing, contact the phone, water, trash, cable and electric companies to establish service in your new home. Consider using a utilities connection service to organize all your accounts.

 Arrange for proper insurance coverage for your property.

 If your new home does not have a warranty, consider a home

warranty to protect your investment.

-  Confirm arrangements, addresses, dates and estimates with your moving company. Request to see all loan documents in advance of closing and review them carefully to make sure you are getting the loan you agreed to. If you don't understand any part of the loan documents, consult an experienced attorney or title agent.
-  Get a final estimate from the title or escrow company of the money required to cover the remainder of the down payment and closing costs. Be aware that you will need to bring proof of identity and a license or photo I.D. to the closing. Also be aware that fees are usually required to be paid by cashier's check.
-  Once you receive your settlement statement, compare actual amounts with the estimates you were given. Be sure you understand all transaction fees and have an approximation of their total cost. Your total cost may include fees for origination, discount points, appraisal fees, credit reports, lender-required inspections, mortgage insurance application, flood insurance, document preparation, courier services and more. Some fees such as mortgage and flood insurance may be payable before closing.
-  Carefully walk through the property you're buying before signing any loan documents. Make sure any repairs or improvements the seller agreed to are completed to your satisfaction.
-  Be sure you receive all keys, alarm codes and remote controls at closing and consider having locks and security codes changed after you take possession of the property.

## **Conclusion**

We hope this Guide has answered most of your basic questions, and provided you a helpful framework in which to understand the process of buying and selling real estate. It is recommended that you contact the licensed real estate agent assigned to you to answer any questions you may have about the process.

