Beginning the Buying Process

STEP 1: ASSESS YOUR FINANCIAL SITUATION

Buying a home is a big deal—in fact, it's probably the largest purchase many people will make in their lifetime. That's why planning, and really understanding what you can afford is so important.

You can begin by:

- Calculating your current living expenses
- Considering your future income changes
- Analyzing your net worth
- Obtaining and reviewing your credit report (www.annualcreditreport.com)
- Repairing errors on your credit report

Once you have positioned yourself financially, you can begin to search for a real estate agent.

While you are not required to have a realtor, it will most likely be helpful, especially if you're a first-time buyer.

When it comes to choosing your agent, it's important to find someone that you're sure to work well with. After all, how you communicate together will dictate which properties you are shown—and someone that truly understands your personal and budgetary needs and wants may be more successful at finding your ideal home.

Asking family members and friends for referrals is a great first step. Your Member Advantage Mortgage Consultant would also be happy to put you in touch with a realtor. Make sure to conduct interviews, and check references before making your decision.

Keep in mind that real estate agents are resources—not decision makers—and they do make commissions on home sales. A great agent will educate you so that you can make your own choices when it comes to buying your home. They should help you:

- Learn about the home's history
- Discover the benefits or drawbacks of a neighborhood
- Estimate the home's fair value and show comparisons
- Write a purchase offer
- Negotiate the price and/or conditions of a sale
- Assist with inspections and contingency issues

Financing

STEP 2: APPLY FOR FINANCING

Securing financing is one of the most intimidating processes for many home buyers. The better you understand your financial situation, the better you can communicate with your lender so that they can find the right lending product for you. Some steps that will get you ready:

- Calculate your down payment availability, and document the source of down payment funds.
- Estimate mortgage payments
- Factor in taxes and insurance
- Consider other costs such as maintenance and trash removal
- Research the various types of loans
- Decide if you would like to obtain a pre-qualification or pre-approval

Pre-qualification vs. Pre-approval

Pre-qualification occurs when you approach a lender and provide undocumented information regarding your finances. The lender will then give you a general idea of what you can borrow based on the information you've told them.

Pre-approval goes one step further: With a pre-approval your lender will provide you with a conditional commitment in writing for an exact loan amount.

This allows you to look for a home that is at or below the specified price level with confidence, and puts you at an advantage when dealing with a potential seller—as they will know that you're one step closer to obtaining an actual mortgage.

Having a pre-approval can also help expedite closing processes, as the paperwork for your mortgage will already have been started.

Useful Terms

Underwriting – The process of analyzing risk, verifying financial information, and filing paperwork to determine final loan approval.

Closing costs – Costs associated with settlement/closing or getting a loan, such as the appraisal and attorney's fees.

Private mortgage insurance (PMI) – Insurance that the lender requires to cover the lender's losses if the borrower defaults on the loan. PMI is typically required when the down payment is less than 20%. Monthly premiums are added to the mortgage payment.

Point – One percent of the loan amount. In most cases, points can be considered up-front interest payments and may be tax-deductible*. By paying points to the lender today, your interest rate will be lower.

Title Insurance – Insurance that protects the policyholder against a claim/loss in the event that there is a dispute involving property ownership (i.e. a former owner claims his signature was forged on a previous deed). Most lenders require it and your attorney may recommend it to cover your interests as the owner.

*** For further information regarding the deductibility of points, interest, and other charges, please consult a tax advisor.**

Choosing Your Loan

Today, there are literally hundreds of different loan programs. By meeting with a loan officer you can determine the best loan for your situation. Be sure to do your research so you understand all of the risks and repercussions of each option. Here are examples of common loan types:

Fixed Rate Mortgages - The interest rate (and thus principal and interest payments) remains fixed for the entire length of the loan. The longer the term, the more total interest you pay but the monthly payment may be lower.

Adjustable Rate Mortgages (ARM) -
A loan for which the interest rate (and therefore the payments) fluctuates over time. It is important to understand when and by how much interest and monthly payments may change.

Finding Your New Home

STEP 3: VIEW HOMES & MAKE AN OFFER

In reality, there's no such thing as the perfect home.

Each home you look at will have both assets and drawbacks. The challenge is to find the "most perfect" home for you, given your own needs, wants, and financial situation.

- Compare and contrast potential neighborhoods.
- Identify homes for sale that you are interested in seeing.
- Select homes for a second viewing.
- Evaluate properties carefully.
- Consider your future needs.
- Make a list of non-negotiable items the home must have (things you cannot live without).

Be sure to take careful notes about each home's strengths and weaknesses. Take pictures if you can. Remember that when you choose the homes you'd like to see a second time, you have the opportunity to research more completely.

Make an Offer

A smart home buyer will ask a lot of questions before signing on the dotted line. By following a few simple steps you can avoid costly mistakes:

- Review the seller's disclosure form – remember that a disclosure is not a warranty.
- Understand market conditions.
- Review sales of comparable properties.
- Estimate costs to update or repair the home.
- Carefully review any contingencies in the offer.

In order to offer an appropriate price, you'll want to find out what similar homes in the area have sold for. Ask your agent to perform a market analysis using the most recent sales information.

It is prudent for you to place whatever contingencies you need in the offer. Some common contingency clauses are:

Financing – Buyer must obtain proposed financing within a set time limit or the offer is null and void.

Property appraisal – Property must appraise for the purchase price or above.

General inspection – Buyer is entitled to an inspection of the property by an independent party. If deficiencies are found, the seller usually has the right to repair the problem or the buyer can walk away from the offer. It can also be used as a tool when negotiating price.

Inspections

Real estate contracts should give the buyer the opportunity to inspect the property. You should always make the sale contingent upon any inspections you feel warranted, your inspector recommends, or are required by law. Once the inspections are complete, you can request that the seller repair any deficiencies. Always document your repairs in writing. You will need to:

- Determine the inspections that are required or desired
- Interview and obtain reference checks for home inspectors
- Have all necessary inspections performed
- Conduct a final walk-through to ensure that repairs have been made

Some of the common inspections required are:

General inspection – usually covers the roof, structure, plumbing, electrical and heating systems. It should address the overall condition of the home and its systems.

Pest – specifically searching for termites or carpenter ants.

Radon – an odorless gas that's the second leading cause of lung cancer.

Lead Paint – homes build before 1978 may contain lead paint.

Septic systems – if home is not connected to public sewer lines.

The final walk-through occurs shortly before the closing so that you can verify the home is in the same condition as when the offer to purchase was made. Give yourself plenty of time for the final walk-through and check everything thoroughly. Refer to your purchase and sale agreement to ensure that all issues have been addressed.

Pre-Closing Activities

There are only a few more steps before you can officially call yourself a homeowner! Entering the final stages, you'll need to:

- Consult with an attorney before signing the Purchase and Sale Agreement, and discuss title insurance.
- Confirm that the lender has all required documentation.
- Obtain homeowners' insurance.
- Schedule the final walk-through.
- Confirm closing time and location.
- Prepare for moving.

When shopping for homeowner's insurance, compare at least three different quotes to get a sense of the best insurer for you. Be prepared to provide the address of the home, its square footage, its age, and the house's type of construction.

The Closing

The closing occurs when the terms of the original Purchase and Sale Agreement have been fulfilled. This is when legal ownership is transferred from the seller to the buyer.

Read everything before you sign! And don't sign anything you don't understand. A good real estate attorney will explain anything confusing in simple terms.

Check your closing costs carefully. Compare the costs on the closing documents against the written estimates provided by the lender and challenge any significant change.

Congratulations on successfully completing the process! Although it's time to relax and enjoy your new home, there are still a few things you'll want to do:

- Store your paperwork in a safe place and keep your receipts.
- Stagger any additional larger purchases.
- Rebuild your savings account in case of emergency.