

Homebuyers Report



Before You Buy

Before you actively look at homes to buy, it is necessary to know how much you can qualify for. Use online mortgage calculators to determine how much you can afford with your down payment and how much closing costs and your monthly payments will be.

Know Your Credit Worthiness

Look at your credit report before you go to a lender. It is not uncommon to find problems with reports, especially if you have a common last name.



Get Pre-Approved

After you see your credit report and any problems are cleared up, get pre-approved with a lender. Take the necessary steps to get a letter from the lender stating you are "pre-approved" for a loan in a specific price range. It is important to have this letter before you make an offer to buy real estate. Once you're pre-approved, you'll know what price range of homes you should be looking at.

What Kind of House is Right?

Determine the specifics you want or need in a home.

- What are your day to day and future needs?
- Do you enjoy swinging a hammer?
- Older houses have great charm, but may need updating.
- Newer homes can offer the latest energy efficiency and design features.
- Larger lots can give room for additions and swimming pools.
- A fixer upper can dramatically increase in worth.
- A PUD may have private recreational facilities such as a pool and play parks.
- A condo or town-house will relieve you of yard work and exterior maintenance.



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Wants and Needs

Sit down with your real estate agent and make a wants and needs list. Knowing your price range, your agent can determine which neighborhoods or towns to start looking. You may find that you are limited to where you look based on your situation. There is no sense in wasting your time in areas out of your price range.

- Price range
- Building style/design
- New construction
- Remodeled
- Fixer upper
- Minimum # bedrooms
- Bathrooms
- Family room
- Fire place
- Office/den
- Hardwood floors
- Swimming pool / Spa
- In-law quarters
- Workshop
- Central air conditioning
- Parking facilities
- Yard size
- School district
- Work locations
- Special zoning or location



First, with a list of houses that you can afford to buy, drive-by them and check out the surrounding neighborhood. Next, make an appointment with your real estate agent to view the interior of the ones you are interested in.

After you have narrowed your selection to a few houses it is important to visit them at different times of the day. Visit them during the morning commute time. If you visit only during the middle of the day, you might not notice if the street in front of the home is used as a minor thoroughfare or a shortcut. This is also a good time to find out how to emerge from the residential area into traffic on a thoroughfare, or how long it takes for freeway access. Go back after dark and walk around the block. You might notice that headlights from approaching traffic shines into the home or you may hear sounds from a nearby night club or park that you were not aware of.

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After previewing a number of homes, you will want to preview some a second time. This is the time to take measurements, ask questions and make a closer self-inspection. When you want to make an offer, ask your agent for sales comps to arrive at an offering price. A "seller's market" or "buyer's market" can have a big effect on how much to offer. There is no sense in making a low offer on a well priced home in a seller's market.

A properly written contract will allow a buyer a number of outs if certain items are not met or approved. Get a copy of a typical real estate contract prior to making an offer and have your agent go over it with you.

Understand the Market

Understanding the market is one of the most important steps to take before buying a home. In a seller's market, listed properties will often be on the market for 45 days or less before selling. These properties will often sell at, near, and sometimes even above asking price. In general, area property prices will be rising. In a buyer's market, homes will remain on the market for periods often exceeding two months, and the selling price is usually noticeably less than the asking price. In general, area property prices will be falling.

To help get an idea of the market in your area, it is important to look at the recent comparable sales, better known as "comps." Comps are properties within the same general area of each other with similar attributes.



Contracts

When buying a home, you are entering into a legally binding contract that must be clearly understood both in terms of rights and obligations. Today's real estate contracts are quite lengthy. Agents are trained to understand and explain the contract along with the reports that are involved in a real estate transaction. Have your agent give you a sample contract to read over prior to you making your first offer. Get explanations to areas you don't understand. This will take a lot of pressure off you during the negotiation period. When it comes to contracts, put everything in writing and fill in all of the blanks. Wording should be specific and carefully chosen. When it comes to who pays for what or if it ever comes to litigation, it's what is in writing that counts.

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Presenting the Offer

When you find the right home, move on it quickly. Have your agent run "comps" on similar sales in the neighborhood. Use this information to base your initial offer. Before your agent writes up the offer, he should attempt to find the seller's motivation. Where are they moving? Why are they selling? How long has the home been on the market? Do they have an offer on another house?

The agent will want to consider other aspects before writing up an intelligent offer. Is the property still for sale or are there offers pending? Is it a probate or foreclosure sale? How much do the sellers owe, are they willing to carry back a loan? Who pays for certain transfer fees may be decided by local custom. Different scenarios will dictate how a contract will be written and presented. Be realistic with your offer. Negotiation time can be very emotional. If you give a lowball offer, the seller may reject it and any other offers as well.

Your agent will present your offer with all of the reasoning behind it. Your agent will be more effective if you are not present at the negotiating table. Let them do their job. They know more about the details of the offer and can present your offer in a positive light. When an agent presents an offer on your behalf, often there is another agent



involved, the listing agent. If your offer is reasonable, expect one or two counter offers. You will be signing many papers during this time. Contracts, counter offers, disclosures, addendums, reports and so on. Make sure to get a copy of everything you sign. You should have copies with the signatures of all those involved in the transactions. After the seller has accepted your offer, the process of escrow and closing begins. Inspections need to be ordered and scheduled in a timely manner. The loan process will begin and generate an equal amount of paperwork. This can be a very emotional and confusing time because of what is involved. The agent will follow the transaction through the closing and will walk you through the steps and keep you informed.

Be patient, realistic and educated about the process. The typical real estate transaction takes 30-45 days to close after a contract is ratified.

Closing Costs

Down Payment

Most lenders require a down payment of at least 10% of the purchase price, though new programs are available for 3%-5% down. 100% financing can be found, but your credit must be excellent and Private Mortgage Insurance (PMI) may be required.

Loan Origination Fee

A loan origination fee is a fee lender's charge for establishing a new loan. Government regulations allow only 1% origination fee on FHA or VA loans. Conventional loan fees can vary from -1 to 3+ points, plus other costs. A point is 1% of the loan.

Appraisal Fee

An appraisal fee is paid to obtain an estimate of the market value of the home upon which the lender will base the loan amount. The cost is about \$300-\$500. Non refundable.

Credit Report

An evaluation is made of the buyer's credit habits determined by a credit bureau for the lender. The cost is \$50-\$60. Non refundable.

Tax Service Fee

A charge of approximately \$75 is made by a tax service company to verify to the lender that the taxes have actually been paid when due or are due to be paid by the seller or buyer or mortgage company if the taxes are impounded.

Assumption Fee

A fee of approximately \$250 or up to 1% of the loan balance is charged by the existing lender for the privilege of assuming the existing loan.

Pest Inspection Fee

Fees of \$75 - \$175 is charged by termite companies for inspecting a property for damage done by wood destroying organisms and dry rot.

Other Inspection Fees

Other inspections the buyer may choose to have done might include:

1. Property Inspections which usually include foundation, electrical, plumbing and overall construction at a cost of \$300-\$400.
2. Roof inspections which usually cost between \$75-\$125.
3. Geological reports cover the properties location in relation to fault and slide zones, costing about \$100.
4. Septic inspections range from \$200-\$400.
5. Radon inspection ranges from \$50-\$100.
6. Asbestos report will cost between \$75-\$125.

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Alta Title Insurance

This is an extended policy with more specific coverage than the CLTA standard policy. It covers unrecorded liens, and is required by almost all lenders. The cost is obtained from a rate chart and is based on the loan amount.

City Transfer Tax

A municipal tax imposed within the corporate limits of some cities. The cost is approximately \$3.30 per \$1,000 of the selling price. This fee is usually negotiable between buyer and seller, however customs vary between counties. The VA does not allow the veteran buyer to pay any portion of this cost.

Miscellaneous Costs & Fees

An estimate of \$150 should be adequate to cover minor items as notary, recording documents, endorsements, etc., as well as allowing for variations for these other estimates.

Hazard Insurance Reserve

Two month's premium may be collected for an impound account, or if required the buyer may need to either provide or pay for coverage for the 1st year.

Prepaid Interest

Interest must be paid from the COE (close of escrow) to 30 days prior to the first regular mortgage payment. An estimate of one month's interest should suffice.

Mortgage Insurance

Mortgage Insurance is required on most conventional loans greater than 80%. The cost may range from 1/2% to 1% per year and 14 months premium is collected in advance. This is coverage for the lender in case of default.

Tax Impounds

If the new loan is going to have an impound account, the lender will require between 2-10 months taxes to be held in a trust account depending on the time of year. Note: if taxes are prorated, buyer's total charge for taxes should equal about six month's taxes.

Escrow Fee

These fees range from \$750-\$2500, depending on the sales price. In some counties it is customarily paid by the seller, in other counties the buyer pays, while in others it may be customarily split. Remember though, everything is negotiable.

Negotiating Fees

The above fees are typical costs when buying real estate in California counties. Most of the fees are considered buyer's non-recurring closing costs. Some of the fees are fixed while others are negotiable. Your real estate agent can negotiate with the sellers to pay some or most of these costs, saving you thousands of dollars in closing costs. Ask your real estate agent and loan agent to provide estimated closing costs of buying a home before looking at homes.

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