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# Homebuyer's Toolkit

TEN STEPS TO CHOOSING AND PURCHASING YOUR HOME



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# You Want to Buy a Home

It's a big decision and there's a lot to learn, but you've decided to buy a home. This comprehensive, quick-reference guide provides the information and tools you need to help you find a home that's right for you. As you follow these ten steps, gather information and complete the worksheets, you will chart a personalized map that will help you find, purchase, and finance a home that meets your needs and preferences.

## 10 Steps to Choosing and Purchasing Your Home

1. Find a Qualified Buyer's Representative
2. Assess Your Credit and Finances
3. Assess Your Wants and Needs
4. Shop for a Home
5. Negotiate Terms
6. Obtain a Mortgage
7. Prepare for the Close (Transfer Ownership)
8. Close
9. Move
10. Celebrate

*The Homebuyer's Toolkit is published by the Real Estate Buyer's Agent Council (REBAC), a subsidiary of the National Association of REALTORS® (NAR), and the organization that awards the Accredited Buyer's Representative (ABR®) professional designation. REBAC and its members offer this Toolkit as a service to help educate homebuyers, because knowledge and information are the best tools for a successful home-buying experience.*

# 1

## FIND A QUALIFIED BUYER'S REPRESENTATIVE

How often do you purchase real estate? Once, twice, three times in your lifetime? So you can hardly be expected to know all the ins and outs of such a major transaction complicated by so many details. In most transactions, sellers are represented by a listing agent who minds these details and their client's best interests. As a buyer, don't you also want complete and fair representation in your real estate transaction? Real estate buyer's representatives are responsible for protecting the best interests of their clients—buyers like you—and can guide you through every step of the process. So the first step, and perhaps the most important, is finding your buyer's representative.

### **What is a Buyer's Representative?**

Defined most simply, a buyer's representative (or buyer's agent) is an advocate for the buyer—not the seller—in a real estate transaction. Real estate laws and regulations vary from state to state, but buyer's representatives usually owe full fiduciary (legal) duties, including loyalty and confidentiality, to their buyer-clients and keep their best interests in mind through the entire transaction.

In some states, consumer protection legislation has been enacted that defines the assumed relationship between a buyer and a real estate agent as that of client and buyer's representative. Regardless, to ensure that you are working with a buyer's representative, the two of you should sign a written buyer representation agreement that defines your buyer's representative's responsibilities and obligations, and yours also.

Consult with your local REALTOR® Association or state real estate regulatory agency for the agency laws that govern your state.

### **Why Should I Use a Buyer's Representative?**

The two most important reasons to use a buyer's representative are protection and efficiency.

Most likely, the seller of whatever property you buy will be represented by a listing agent who can provide expertise throughout the transaction. Don't you want the same kind of service as a buyer? A buyer's representative can provide you with the expertise you need through the entire transaction.

According to NAR research, buyers who work with a buyer's representative also find their homes quicker, while viewing more properties in their search, than buyers who do not engage a buyer's representative.

## **Choose a REALTOR® Who is an ABR®**

A REALTOR® is a real estate professional who is a member of the National Association of REALTORS®. *The Voice for Real Estate*®, NAR is the world's largest professional association. Since members must subscribe to NAR's strict Code of Ethics, you can be confident that you will be treated fairly and with respect. REALTOR® is a registered collective membership mark, and only members of NAR may use it.

A REALTOR® with the ABR® designation has taken Accredited Buyer's Representative (ABR®) training, specialized education offered by the Real Estate Buyer's Agent Council (REBAC). In addition to knowing the dynamics of the local market, REALTORS® with the ABR® designation also understand the special needs of buyers. They have the experience to provide the service you need and will help you make informed decisions through the entire process that will lead to a successful home purchase.

To find a REALTOR® with the ABR® designation in your area, visit [www.REBAC.net](http://www.REBAC.net).

## **Buyer's Representative Service Checklist**

Your buyer's representative can help you:

- Identify your needs.
- Suggest sources of financing and other service professionals, such as inspectors and exterminators.
- Provide sources of accurate information on neighborhoods, schools, and communities.
- Select and arrange property showings.
- Evaluate particular properties.
- Explain forms and agreements.
- Suggest contract contingencies to protect you, rather than the seller.
- Assist in the negotiations for a favorable price and terms.
- Keep all information confidential that could weaken your bargaining position.
- Monitor the entire purchase process, assisting with issues that arise through closing.

## **How is my buyer's representative compensated?**

Many buyers wonder, "Do I pay my buyer's representative?" Your buyer's representative should discuss compensation in your initial meeting, because there are a number of ways your buyer's representative can be paid. Typically, however, buyer's representatives are compensated from the commission sellers pay their listing agents, usually based on the selling price of the property. Some buyer's representatives use different systems, often based on a negotiated fee for services rendered.

In most cases, prior to viewing any properties, you and your buyer's representative should sign a written buyer representation agreement that includes terms of compensation.

## **What's Next?**

Once you've chosen your buyer's representative, you can chart your game plan, and the rest of the steps in the *Toolkit* will help you lay it out. Maybe you have thought about things like your motivation for buying a home, how long you plan to live there, and your timeline for buying; share this information with your buyer's representative. The more information you supply, the better your buyer's representative will be able to serve you.

Thousand of homes are bought and sold every day. Is the process complicated and a bit overwhelming? It can seem so. But is it manageable? Absolutely! And preparation is the name of the game.

# 2

## ASSESS YOUR CREDIT AND FINANCES

### Determine Your Credit Status

Because any lender you apply to for a mortgage will verify your credit history, it's wise to check your own credit rating in the beginning of your home search, even if you're sure you have an excellent credit record. There may be blemishes in your credit history that you don't know about. Identifying and resolving any credit problems to improve your credit rating will provide benefits, such as preferred rates from lenders and home insurers. Acquiring a copy of your credit report is simple.

The Fair Credit Reporting Act allows consumers to obtain one free credit report from each of the three major reporting bureaus every 12 months. To obtain a report visit: [www.annualcreditreport.com](http://www.annualcreditreport.com)—the only authorized source for consumers to access their annual credit report online for free. Or, call 877-322-8228.

The three major credit bureaus:

#### Equifax

[www.equifax.com](http://www.equifax.com)  
Information Service Center  
P.O. Box 740241  
Atlanta, GA 30374-0241  
800-685-1111

#### Experian

**(formerly TRW)**  
National Consumer  
Assistance Center  
[www.experian.com](http://www.experian.com)  
P.O. Box 949  
Allen, TX 75013-0949  
888-EXPERIAN  
(888-397-3742)

#### Trans Union Corporation

[www.transunion.com](http://www.transunion.com)  
Customer Disclosure  
Center  
P.O. Box 390  
Springfield, PA 19064-0390  
800-888-4213

### Pre-qualification vs. Pre-approval

Typically you will first pre-qualify for a mortgage, then get pre-approved before you have found the specific home you wish to purchase. What is the difference?

**Pre-qualification:** An informal determination by a lender or mortgage broker stating the amount of the mortgage you can afford.

**Pre-approval:** A guarantee in writing by a lender to grant you a loan up to a specified amount.

There are two advantages of being pre-approved for a loan as early as possible in your home-buying process:

- Sellers will find any offer you make more attractive if you are pre-approved for a mortgage.
- The length of time before closing can be shorter if you've completed the steps to secure mortgage approval prior to signing a contract on a property.

### **Why is a Locked-In Rate Important?**

When your loan is approved, the interest rate is "locked in," or guaranteed, for a specific period of time. For example, a 60-day lock means that the loan application process must be completed and the promissory note (mortgage loan) signed with the closing of the purchase within that lock-in period or the rate guarantee expires. The rate after that time could be higher, increasing your mortgage payment.

### **How Much Can I Afford?**

When evaluating how much you can afford for your home and mortgage, lenders usually use two rules of thumb:

1. Your maximum monthly mortgage payment should not exceed 28 percent of your gross (pre-tax) income.
2. Your maximum debt load, including your mortgage payment, should not exceed 30 percent of your gross income.

These ratios are typical of those required to secure a conventional mortgage. Lenders will be able to supply details about other types of mortgages, such as FHA or VA loans, which offer more flexible qualification standards. There are many types of mortgages and financial tools available that provide flexibility in interest rates, terms, and down payment requirements.

The chart on page 7 will help you estimate the mortgage you can afford.

## Worksheet

### 4 Steps to Estimating How Much Mortgage You Can Afford

#### 1. Figure Your Total Monthly Pretax Income

Annual salary/wages of buyers .....\$ \_\_\_\_\_  
Other annual income (dividends, child support, alimony, etc.) .....\$ \_\_\_\_\_  
Total annual income .....\$ \_\_\_\_\_  
Divide total annual income by 12 months ..... + 12  
Total Monthly Pretax Income .....= \$ \_\_\_\_\_

#### 2. Figure Your Total Monthly Debt

Car payment .....\$ \_\_\_\_\_  
Student loan payment .....\$ \_\_\_\_\_  
Child support/alimony .....\$ \_\_\_\_\_  
Credit cards (minimum monthly payment) .....\$ \_\_\_\_\_  
Other long-term debts .....\$ \_\_\_\_\_  
Total Monthly Debt .....= \$ \_\_\_\_\_

#### 3. Maximum Monthly Mortgage Payment

*(includes principal, interest, tax, mortgage insurance@28% of pretax income, 29% FHA)*

Total Monthly Pretax Income from Step 1. ....\$ \_\_\_\_\_  
Multiply by .28 (FHA mortgages .29) ..... x .28 or x .29  
Maximum Monthly Mortgage Payment .....= \$ \_\_\_\_\_

#### 4. Maximum Monthly Debt Including Mortgage Payment

*(36%, 41% FHA & VA)*

Total Monthly Pretax Income from Step 1. ....\$ \_\_\_\_\_  
Multiply by .36 (FHA & VA mortgages .41) ..... x .36 or x .41  
Maximum Monthly Allowable Debt Including Mortgage .....= \$ \_\_\_\_\_

#### Maximum Monthly Mortgage Payment

*Total monthly mortgage payment (principal, interest, taxes, and mortgage insurance) should equal no more than 28% of pretax income, 29% for FHA mortgages.*

#### Maximum Monthly Debt Including Mortgage Payment

*Total allowable monthly debt (includes mortgage payment as described above, car loan, student loan, child support, alimony, minimum credit card payments, and other long-term debt) should equal no more than 36% of pretax income, 41% for FHA and VA mortgages.*

# 3

## ASSESS YOUR WANTS AND NEEDS

This exercise will help your buyer's representative identify specific homes to show you. If you have other needs and/or desires, be sure to list these and discuss them with your buyer's representative.

### Home Feature Prioritizing Tool

Ideal Price \_\_\_\_\_  
# of Bedrooms—Minimum \_\_\_\_\_  
# of Bathrooms—Minimum \_\_\_\_\_  
Garage—# of Cars \_\_\_\_\_  
Lot Size \_\_\_\_\_  
Age of House \_\_\_\_\_  
Square Feet of House \_\_\_\_\_  
Style of House \_\_\_\_\_  
Number of Floors \_\_\_\_\_  
Type of Neighborhood \_\_\_\_\_

### Determining What You Need Versus Want

Rate the features below on a scale of 0 to 10, with 0 being those things you absolutely don't want and 10 being those things you must have.

<b>Eat-In Kitchen</b>	0	1	2	3	4	5	6	7	8	9	10
<b>Separate Dining Room</b>	0	1	2	3	4	5	6	7	8	9	10
<b>Fireplace</b>	0	1	2	3	4	5	6	7	8	9	10
<b>Family Room</b>	0	1	2	3	4	5	6	7	8	9	10
<b>Finished Basement</b>	0	1	2	3	4	5	6	7	8	9	10
<b>Homeowner Association</b>	0	1	2	3	4	5	6	7	8	9	10
<b>Amenities</b> (security gate, community pool, tennis courts)	0	1	2	3	4	5	6	7	8	9	10
<b>Pool/Spa</b>	0	1	2	3	4	5	6	7	8	9	10
<b>Patio/Porch</b>	0	1	2	3	4	5	6	7	8	9	10
<b>Yard</b>	0	1	2	3	4	5	6	7	8	9	10
<b>View</b>	0	1	2	3	4	5	6	7	8	9	10

On the next page is a blank form for you to fill in other features that you may want in your home and rate their importance.



# 4

## SHOP FOR A HOME

### **Big Choices That Will Make a Big Difference**

The decisions you make in the home-buying process will determine the neighborhood and home where you will live—and the financial terms by which you will pay for your home. But with so many neighborhoods and all the homes on the market in each one, narrowing your choices can be a harrowing task, especially if you're not familiar with the area. Your buyer's representative can be invaluable, helping you find resources to learn what you need to know to make informed decisions.

**Note:** Under Federal Fair Housing Laws it is unlawful for a real estate professional to engage in conduct that is discriminatory on the basis of race, religion, color, national origin, sex, handicap or familial status. A real estate professional should never steer you towards or away from a particular neighborhood if the homes there fit your needs and are within your range of affordability.

### **Factors to Consider When Evaluating a Neighborhood**

Spending time in a neighborhood can tell you a lot about it, but not everything; you also need to do some research. Depending on your particular needs and preferences, some factors will be more important than others, but things to consider include:

**Neighborhood Profile:** Research neighborhood aspects such as population density and the level of commercial development. Ask yourself "What kind of neighborhood do I want to live in?" City? Suburban? Small town? Rural?

**Household Data:** Take into account family type, average household income, and homeowner education level and occupation.

**Crime Rate:** Crime is an unfortunate reality we must all deal with. Probably no neighborhood is totally immune from the risk of crime, but by researching the incidence of reported crime in the neighborhoods you are considering, you can make an educated decision about where you live.

**Quality of Schools:** Base your evaluation on school performance, as determined by average test scores, spending per student, and the percentage of college-bound students and national merit scholars.

**Amenities:** What features you want in a neighborhood will be determined by the lifestyle you lead. Amenities to consider include proximity to: schools, place of employment, shopping, transportation, parks and recreation, restaurants and nightlife, cultural institutions, and natural resources, such as state parks.

## **Neighborhood Search Strategies**

Finding the right neighborhood is an inexact science, but try incorporating some of these strategies as you evaluate different areas:

- Neighborhoods become “hot,” and home prices there increase sharply. Rather than looking in an area that has already been “discovered,” consider looking in nearby neighborhoods that have not yet experienced drastic rises in home values.
- Look in neighborhoods that are more outlying, close to public transportation if commuting is a concern.
- To assess demand in a neighborhood, count “for sale,” “sale pending,” and “sold” signs. Ask your buyer’s representative if multiple offers are being made on neighborhood properties. Also research the gap between list prices and sale prices, and how long the properties were listed before sale. If properties are selling for more than list, demand in the neighborhood is high; longer times to sale could indicate a cooling market.
- Be flexible in the type of housing you will consider. By remaining open to a condominium or townhouse, rather than a detached house, you may be able to live in a more desirable neighborhood than you could otherwise afford.

## **Using Web Sites**

The Internet makes shopping for a home, even in the preliminary stages, easier than ever. NAR’s property listing Web site, [www.REALTOR.com](http://www.REALTOR.com), provides online information about millions of properties. Some listings even include virtual tours—an increasingly popular marketing technique that includes detailed photographs. In addition to property listings, there is also information about neighborhoods, schools, crime rates, and other topics. Real estate companies and agents usually have their own Web sites too, which also often include information about other home-buying topics, in addition to individual property listings.



## Choosing a Home

It's time to select a few homes to view. Refer back to your assessment of wants and needs on pages 8 and 9 to see which features are absolute requirements and which ones you'd like to have if possible. The following worksheet will help you compare the homes you view.

### Home Comparison Worksheet

Comparing homes' features side-by-side will help you make the right choice.

Features	House #1	House #2	House #3
Address			
Price			
Location			
# Bathrooms			
# Baths			
Square Feet			
# of Garage Spaces			
Family Room			
Air Conditioning			
Formal Dining Room			
Pool			
Spa/Tub			
Lot Size			
Landscaping			
Kitchen			
Floor Plan			
Storage Space			
Condition			
Curb Appeal			
Commute Time			
Other			

After evaluating the homes you've viewed, you may be ready to move forward by making an offer on the home you've decided is right for you. Depending on market conditions, you may have to act quickly. REALTORS® and probably your friends have stories about buyers who looked far and wide for their dream home, finally found it, delayed action and lost the home.

# 5

## NEGOTIATE TERMS

### **Making the Best Deal: Why Making the Deal is a Big Deal**

Once you've found the home you want to place an offer on, the next step is reaching an agreement with the owner about the price, how and when you can buy it. Throughout this process, there are many important considerations that can impact your finances, tax situation, and legal obligations. When you consider that you will live with the decisions you make about these issues—perhaps for a long time—just how big a deal your home purchase is becomes obvious.

Your buyer's representative can help you navigate the way through much of the transaction process, but may also advise you to consult legal and tax experts.

### **Negotiating**

Assess your negotiating position prior to making an offer. Here are some basic rules to help you.

You are in a strong bargaining position (the seller will look favorably on your offer) if:

- You are an all-cash buyer.
- You are pre-approved for a mortgage.
- You do not have a house you need to sell, or other contingency that must be met, before you can purchase the home.

With these factors in your favor, you may be able to negotiate a reduction on the listed price. On the other hand, in a "hot" seller's market, if your "perfect" home comes on the market, you may want to offer the list price (or more) to beat out other offers.

It may also be helpful to find out why the house is being sold and if the seller is under pressure to close a deal quickly. Consider that:

- Every month a vacant house remains unsold represents considerable added expense for the seller.
- If the sellers are divorcing, they may just want to close quickly.
- An estate sale often yields a bargain in return for a promptly closed transaction.

## Negotiating Strengths and Weaknesses Assessment Tool

<b>Buyer Information</b>	<b>Yes</b>	<b>No</b>
Pre-approved?		
Contingencies?		
Deadline to close?		
Buyer's market?		
Seller's market?		
Available earnest money?*		
<b>Seller Information</b>		
New listing?		
Deadline to close?		
Divorce settlement?		
House vacant?		
Sale is a contingency for another property?		

**\*Earnest Money:** This is a cash deposit you make when putting in your written offer on a property to show your "good faith." Sellers are understandably suspicious of offers that are not accompanied by such a deposit. An agent or an attorney usually holds the deposit, the amount of which can vary by the negotiations and from market to market. These funds usually become part of your down payment if the offer is accepted, or are refunded if negotiations fail to result in a sales contract.

### Making an Offer

The starting point and ending point of every negotiation is the initial offer and the acceptance of the final offer. Because oral promises are not legally enforceable when it comes to the sale of real estate, buyers must enter into a written contract, which starts with your written initial offer. Your offer will specify price, plus all the terms and conditions of the purchase you want to negotiate. Here your buyer's representative provides a very valuable service by using standard forms that have been kept up-to-date with changing real estate laws. (Keep in mind that your purchase offer and contract must

conform to state and local laws and incorporate all key items. State laws vary, and provisions required in one state may be different from those in another.) A REALTOR® with the ABR® designation can answer the questions you may have about the process or refer you to experts who can.

### **What an Offer Contains**

To help you answer some of your questions here's a partial list of what is often specified in an offer, including possible negotiation points. (Contingencies that might be included in an offer are covered in a separate section immediately following.) Keep in mind that if your initial offer—or a subsequent counteroffer—is accepted by the seller, it will become a binding sales contract (known in some areas as a purchase agreement or earnest money agreement). It's important, therefore, that your initial offer contains the items that will serve as a blueprint for the final sale. Though the more demands you make on sellers, the less favorably they will probably look on your offer, most anything is negotiable. Some things, however, should be included in most purchase offers, such as:

- Property address (sometimes its legal description)
- Sales price and terms (cash and monies acquired for the purchase through a mortgage)
- Seller's promise to provide clear title (ownership)
- Date for closing (the actual transfer of title. See Step 8.)
- Earnest money, whether check, cash or promissory note, with provisions for how it is to be refunded to you if the offer is rejected or kept as damages by the seller if you are found in breach of the contract
- Pro-rated amounts for payment of real estate taxes, utilities, assessments, and other costs that may be incurred by the seller before closing but not billed to the property until afterwards
- Who will pay for title insurance, surveys, inspections and similar costs associated with the transaction
- Type of deed to be transferred
- Federally- and state-required provisions, such as environmental, hazard and property disclosures, provision for attorney review, etc.
- Final walk-through inspection shortly prior to closing
- Length of time that the offer is valid

### **Contingencies**

A contingency is a term or condition written into an offer that must be met for it to become a binding contract. If you write into your offer that it is "contingent upon" a certain event, you're saying that you will agree to the contract only if that event happens. Some common contingencies in a purchase offer include:

- Obtaining specific financing terms, such as the interest rate and the duration of the mortgage. If you can't find the mortgage terms you're looking for and which were specified in your offer, you cannot be bound by a contract drawn from your offer.

- Securing approvals for agreed-upon third-party inspections, within a stipulated period of time after the seller's acceptance of the offer. This allows you to "walk away" from the contract if you find the inspection unsatisfactory. (See Step 7 for more information.)
- Securing a specific job. If you are under consideration for a job transfer, you'll want to include this provision.
- Selling your current home. While sellers tend to view a contingent sale unfavorably, an accepted offer on your home will improve your negotiating position.
- Reviewing condominium bylaws or other association documents.

After your offer has been drawn up, taking into consideration your negotiation strategy and all provisions and contingencies you want included, your offer is presented. Exactly who presents your offer can vary. Your buyer's representative may present it to the listing agent and seller. Or perhaps the listing agent will receive your offer from your buyer's representative, then present it to the seller, without your buyer's representative.

### **The Sellers' Response to Your Offer**

Remember that sellers have in mind the amount of money they want from the sale of their property, and have probably charted out a negotiating strategy of their own. As a result, several things can happen once your offer has been presented.

If, after reviewing your written offer, the sellers sign their unconditional acceptance to it just as it stands, then you will have a binding contract as soon as you are notified of your offer's acceptance. If the sellers reject your offer, you are released of any obligation and the sellers cannot later change their minds and expect to bind you to a contract based on that offer.

If the sellers like most everything about your offer except the sale price, closing date or other provisions in your offer, they may present a written counteroffer that includes the changes the sellers want to make. You are then free to accept their counteroffer, reject it or make your own counteroffer to their counteroffer. This process can repeat itself as many times as it takes for you and the sellers to come to a complete agreement about the sales contract.

A counteroffer becomes a binding contract when either you sign unconditional acceptance of the sellers' counteroffer, or the sellers' unconditional acceptance of your counteroffer. At this point, negotiations are over and the terms of the sale are final.

### **Withdrawing an Offer**

Can you take back an offer? In most cases the answer is yes, right up until the moment your offer is accepted. In some cases, you can withdraw an offer before you've been notified of its acceptance. If you want to withdraw your offer after acceptance, be sure to do so only after consulting a lawyer who is experienced in real estate matters. You want to avoid losing your earnest money deposit in a law suit for damages the sellers may suffer through your actions.

# 6

## OBTAIN A MORTGAGE

### Selecting a Lender

When selecting a lender, your goal is to obtain a mortgage loan with terms that are most favorable to your situation. In order to find the best home loan for you, contact several lenders to discuss the mortgages they offer, their rates, closing costs, and other fees. If you have a mortgage now, contact that institution. Mortgage loans are available from many sources, including:

- Mortgage companies
- Savings and loan associations
- Banks
- Credit unions

### Rates and Duration

Two of the biggest choices you'll make in determining your mortgage are the interest rate and duration. Combined with the amount you borrow, they will largely determine the amount of your monthly payment. The interest rate is the percentage of the loan amount you are charged to borrow the money; the higher the rate the more you pay. Mortgage rates change, subject to various economic factors. To be more certain of what they pay, most buyers "lock" their rate when they apply for their mortgage. A lock means that the rate in the approved application will be valid for a set period of time—during which the deal must be closed—regardless of what market interest rates are at the time of closing. With fixed-rate mortgages, usually 15- or 30-year, you are charged the same percentage over the life of the mortgage. The rate changes in an Adjustable-Rate Mortgage, or ARM, after a set number of years.

### Closing Costs and the Truth in Lending Statement

There are other costs associated with a mortgage. They might include an appraisal and "points," a fee based on the amount of the loan. Depending on the amount of your down payment, you may also be required to carry mortgage insurance, a policy that pays your mortgage if you are unable to. So that you can see all that you're paying for the home over the length of the mortgage, you will be given a Truth in Lending Statement, which is a federally-required good-faith estimate of all the costs associated with your mortgage and the purchase of your home.

### Applying for a Loan

At this stage, you may have already made an offer on a house, decided what type of mortgage you want, and selected a lender. The next step is to fill out a loan application. Your buyer's representative and lender together can help you understand:

- Pre-application steps
- The information your lender needs at application
- Decisions you will have to make at application
- Application costs you will have to pay
- Application legal requirements

## **Mortgage Loan Interview Application Checklist**

The following checklist includes much of information you and any co-borrower will need to supply to your lender. Different lenders may have different information requirements, so you should inquire about what to bring to your loan interview. (See also Special Situations section.) Note that if you were pre-approved for a mortgage, you may have already completed much of this process.

- Social Security Number and Birth Date**  
Yours and those of any co-borrowers.
- Paycheck**  
Most recent pay stub showing year-to-date earnings, for you and any co-borrowers.
- W-2 or 1099 Tax Forms**  
W-2 or 1099 tax forms for the past two years, for you and any co-borrowers.
- Employers**  
The names, addresses, and telephone numbers of your employers for the past two years and those of any co-borrowers.
- Accounts**  
The account numbers and current balances of checking accounts, savings accounts, and other accounts you and any co-borrowers have.
- Current Assets**  
Current balances of assets such as Individual Retirement Accounts (IRAs), employee retirement accounts, certificates of deposit (CDs), stocks, and bonds. If you own securities, your lender may require a current brokerage statement with names of the stocks, amount per share, and number of shares owned.
- Personal Property**  
The value of personal property, including life insurance face value, furniture, cars, collections, cash, and other valuable property.
- Liabilities**  
For each outstanding loan, provide the lender with the name and address of the creditor, monthly payment and total balance due. Liabilities might include auto loans, student loans, credit cards, and other installment debt.
- Current and Previous Addresses**  
If you currently own a home, provide your new lender with the property address,

current market value, current mortgage lender's name, account number, current monthly payment, and outstanding balance. If you rent, provide your current address, with the name and address of your landlord or the management company, and the monthly rent. Provide the same information about previous residences. (Usually you need to provide this additional information only if you've lived at your current address for less than two years.)

**Agreement to Purchase**

Bring along a signed copy of the completed Agreement to Purchase for the property you are buying, any amendments to the Agreement, a copy of the listing form for the property, the legal description of the property, and receipts for earnest money or down payment deposits toward the property that have already been made.

**Special Situations: Additional Required Information**

Lenders will require some applicants to provide additional information under certain circumstances. Check the list below to see if any of these situations apply to you. Different lenders may have different requirements.

**Self-employed or Compensated on a Commissioned Basis**

Provide your federal tax forms for the past two years, along with a current year-to-date profit and loss statement.

**Separated or Divorced**

Provide a copy of your divorce decree and separation agreement, in addition to documentation about any alimony or child support payments you are required to make. If you receive alimony or child support and would like the lender to consider these monies as income for the purposes of their calculations, provide proof of these payments, such as the court clerk's history of payments or cancelled checks for the past 12 months.

**Pension, Disability, Social Security, or any Form of Public Assistance Benefits Considered as Income**

Provide a copy of an award certificate or a check from the issuing agency.

**Bankruptcy, Foreclosure or any Judgments Against You in the Past Seven Years**

Provide information about the proceedings. For bankruptcies, documentation should include a copy of the bankruptcy discharge and a schedule of both debts and assets. Judgments against you should include an attorney's letter that explains the outcome of the proceedings.

**Department of Veterans Affairs (VA) Loan Application**

Provide your DD214 Form (discharge papers) or your certificate of eligibility.

**Federal Housing Administration (FHA) Loan Application**

Provide a photo identification card, such as a driver's license. You may also need to bring your Social Security card (if your Social Security number is not on your photo ID).

# 7

## PREPARE FOR THE CLOSE

### **Homeowners Insurance**

The financial institution providing your mortgage will demand that the home you are purchasing is insured, so you must obtain homeowners insurance before closing and provide proof of the policy. Allow plenty of lead time before closing to find homeowners insurance. Costs and coverage can vary, so obtain at least three quotes from different companies. When evaluating the policies to find the right one for you, consider questions such as:

- What is covered?
- What is not covered?
- How much will the insurance cost?
- Are discounts available for such things as smoke detectors and fire alarms, burglar alarms, non-smoking owners, combined auto and home policies, higher deductibles?
- What is the deductible?
- Is the home in an area prone to hurricanes where wind insurance may be a separate policy?
- Is the home in a flood zone where separate flood insurance is required?

**Note:** Some personal items such as expensive jewelry or valuable collectibles may not be covered in standard homeowners policies. When getting your quotes, include an inventory of your possessions to see if riders are required to cover these items.

To determine eligibility and premiums, insurers are increasingly investigating an applicant's claims history. Past claims made on the property to be insured are also a factor in determining coverage and premiums. Some insurers also examine the applicant's credit report.

### **Complete a Home Inspection**

REBAC recommends that you have the home you want to purchase professionally inspected—even if it's new construction—to identify potential expenses that might not be immediately detectable during your viewings of the home. (Imagine finding out that you need a new roof or furnace the day after you move into your home.) Schedule an inspection with a qualified home inspector within the time specified in the inspection contingency of the purchase contract. Your buyer's representative should be able to assist you in identifying a number of inspectors to choose from.

The inspector should provide you with a detailed report detailing any flaws found in the home, including information about the relative severity of his findings.

You should include in the purchase contract a home inspection contingency clause that permits you to cancel the contract without obligation within the specified time if you are not satisfied with what the inspector finds. Such a clause would allow you to present findings to the sellers you are unhappy about and ask them to remedy the problems you find, whether through repair or adjustment of the sales price.

The final walk-through inspection is more like a viewing, a final check to ensure that the home is in the same condition it was during the inspection, and that any contracted items, such as appliances, are still in the home.

# 8

## CLOSE

The actual and legal transfer of ownership is called the closing, or settlement. Possession is usually transferred at closing too, but not always. For various reasons, the seller may request to close the sale yet retain possession, renting the property from the buyer until the seller vacates the property and possession is transferred.

Who attends the closing? Usually:

- You, the buyer
- The seller
- The closing agent, the title insurance representative, and the escrow agent. One person may fill all these roles, coordinating the settlement of the documents, recording them, disbursing funds, and handling the details of the closing.
- The real estate agents
- Your attorney
- The seller's attorney

### Steps in the Closing Process

There are a number of steps that must take place between the time you and the seller sign the contract and attend the closing meeting. It can take several weeks, in fact, to complete these steps—six to eight weeks is not uncommon.

#### **Setting the Closing Date**

Part of the contract negotiations, when the closing takes place is decided by the buyers and sellers, providing ample time for the preparation of the legal documents for both the transfer of title and for the mortgage. You need to provide time for your mortgage to be approved and to sign the lender's letter of commitment. The closing must take place before the mortgage interest rate lock expires, but remember that you will also need to complete the home inspection and acquire homeowners insurance in addition, perhaps, to other duties.

#### **Reviewing the Documents**

Ask for the documents before the actual closing and read them carefully. It might be a good idea to ask your attorney and your buyer's representative to review them with you. This will help you understand the documents before you sign them.

#### **Understanding the Closing Costs**

Closing costs can include many different expenses and can add up to a sizeable amount of money. Be prepared. Know exactly what your closing costs are and how much you will be expected to pay at the closing meeting. These amounts will be

detailed in a federally-required good-faith estimate provided by your lender and the actual mortgage documents.

Ask your buyer's representative, attorney, or closing agent if a personal check is acceptable for the payments due at closing or if a certified check, bank draft or cashier's check is required.

□ **Attending the Closing Meeting**

Though a few states do not require closing meetings, they are common in most states. During the meeting, you'll sign many documents, including the closing statement, a kind of balance sheet of all the funds changing hands between the parties; the mortgage papers, which detail your obligation to the lender; and a Truth in Lending Statement. You will need to provide proof of insurance and approval of the inspections, in addition to signing any other documentation required in your state. The settlement or escrow agent should obtain this documentation on behalf of the lender.

After all documentation has been signed and all monies paid, possession is usually transferred and you receive the keys to your home. Congratulations! You are a homeowner.

**Note:** See **Tax Tips for Buyers** on page 33 for information about tax-deductible closing costs.

# 9

## MOVE

### **Plan and Prepare**

You found your home, the contract has been signed, and the closing date set. Now, it's time to prepare for moving day. You should, however, begin planning for it well in advance. You might find that moving is the biggest job of all. But whether you are moving immediately after closing or have the luxury of extra time after closing, whether you are moving across town or across the country, planning and preparation are essential.

### **Making a Plan**

Making a moving plan prior to closing will be one of the most beneficial things you do for yourself. By developing an outline of moving costs, making a moving checklist (example on page 27) and investigating moving companies, you can eliminate or at least reduce many of the surprises and hassles that moving often entails.

### **Costs, Insurance, Packing, and Income Tax**

One of the greatest surprises to first-time and even repeat buyers is the variety of expenses associated with moving. They include everything from packing materials and utility hookups to insurance for your valuables and the actual cost of the movers, or truck rental. When selecting a moving company, ask friends and family if they have any recommendations. Call at least two companies for estimates, which should be cost- and obligation-free. You can expect professional movers to come to your home, discuss your move in detail and provide many recent referrals. Check their referrals, especially if you didn't find the mover through a personal recommendation. Before selecting your mover, confirm that the company is insured, thereby providing at least some coverage for your belongings. Three of the most common forms of insurance coverage are basic liability, declared value protection or actual cash value, and replacement value. You may need to buy more coverage or specialized coverage for certain items such as antiques and works of fine art. Contact your homeowners insurance company to see if your policy also covers moving.

If your move is job-related, many of your moving expenses may qualify as income tax deductions. Consult a tax professional for details.

## **Start Packing Prior to Your Move**

Over time, many of us accumulate a lot of things, so you might want to begin with a general assessment of your possessions; disposing of clothes, furniture, and other things that you no longer want or need. Simply put, the less you move, the less it costs. To defray some of the costs of moving, consider having a garage sale or donate these items to charity.

## **How to Pack**

Rather than having the mover pack your belongings, you can save money by doing some or all of the packing yourself, purchasing boxes and other packing materials at any moving and storage company.

Some important packing tips are the following:

- Begin packing as early in the moving process as you can.
- Cushion the bottom and sides of boxes first.
- Pack heavy items in smaller boxes, light items in larger boxes.
- Packed boxes should not exceed 30 pounds.
- When packing, go room by room.
- Make a list of what's in each box.
- Label all boxes by room so the movers know where to put them.
- Wrap breakables in newsprint, paper towels, or clothes, placing them in dresser drawers, containers with lids, large cans, etc.
- Fill your washer and dryer with clothes, linens, and other light items.
- Wrap and secure cords to electrical appliances.
- Do not use tape on furniture—tape can cause damage—instead, use rope or elastic to secure doors and drawers.
- If you have children, make them part of the process by letting them help you pack their toys.

Never pack:

- Combustibles
- Flammables
- Corrosive liquids (read label of household cleaners)
- Jewelry
- Important papers
- Prescription medicine

Another good idea is to fill and label a couple boxes with moving-day essentials, like a basic toolkit, extension cords, a pail, rags, cleansers, paper towels, and toilet paper, along with some kitchen basics such as disposable plates, cups and spoons, coffeemaker and coffee. You may also want to pack a couple suitcases with a few days' of clothes and other personal items you'll need as soon as you arrive at your new home before the movers arrive with all of your belongings.

## **Moving Checklist**

The following list contains most of the big tasks that you'll need to do and some that you won't, depending on whether you now rent, whether you're relocating to a new area or other factors. There may be things not on this list that you'll also have to do; add them in the space allotted. Your moving company may also provide its own moving kit. While REBAC's *Homebuyer's Toolkit* provides some valuable information, defer to the expertise of your moving company when dealing with them.

### **8 Weeks Before**

- Call moving companies for estimates.
- Remove and dispose of unnecessary possessions from your closets, attic, basement, storage sheds, etc.
- Start compiling an inventory of your possessions.
- Get a floor plan (with room dimensions) of your new home to help you decide what furnishings you want to keep and what room they will go in.
- Start using up things you can't move, such as perishables.
- Start a file of moving-related papers and receipts.
- Arrange to transfer your children's school records and family medical records.

### **6 Weeks Before**

- Contact the IRS and/or your tax advisor for tax-deductible information.
- Evaluate your possessions inventory and dispose of unwanted possessions (moving/garage sale, donations to charities).
- Secure off-site storage, if applicable.
- Locate schools, healthcare professionals, and hospitals in your new location.
- Notify the following of your change of address:
  - Banks and credit unions
  - Credit card companies
  - Church, clubs, and social organizations
  - Relatives and friends
  - Internal Revenue Service, Social Security Administration
  - Insurance agent, lawyer, tax/financial advisor
  - Magazine subscriptions
  - Post office
  - Employers and unions
- Choose your mover and sign a contract with them.

- Contact your homeowners insurance agent about coverage for moving and secure more if necessary.
- Contact insurance companies (auto, homeowners, medical, and life) to arrange for coverage in your new home.

#### **4 Weeks Before**

- Send furniture, drapes and carpets for repair/cleaning as needed.
- Create file of important papers, such as auto license, registration documents and title; medical, dental and school records, birth certificates, wills, deeds, stock certificates, and other financial documents.
- Contact utility companies (natural gas, electric, heating oil, water, telephone, cable TV, scavenger/trash collection) with date to discontinue/transfer service at your old home and start/ transfer service at your new home. Also arrange for final readings and bills, including refunds on prepaid services.
- If moving from an apartment, arrange for refund of your security deposit.
- Discontinue additional home services (housekeeper, gardener/lawn service, snow removal, and pool cleaner), if applicable.

#### **3 Weeks Before**

- Make travel plans, if necessary.
- Arrange to close existing bank accounts and open new accounts in new area, if necessary.
- Notify your state's department of motor vehicle of your new address.
- Arrange for childcare on moving day.

#### **2 Weeks Before**

- Arrange transport for your pets and plants.
- Service your car for travel to new area.
- Contact your moving company and review arrangements for your move.

#### **1 Weeks Before**

- Pack moving essential boxes, important documents, travel clothes, personal items, and prescription medications.

#### **2-3 Days Before**

- Confirm final arrangements with your mover.

# 10 CELEBRATE

## **Congratulations!**

You have turned the American dream into a reality. Homeownership provides countless benefits for personal and financial growth: self-reliance, security, pride of ownership, and prosperity for you and your family.

REBAC wishes you the best in making yours a happy home.

# APPENDICES

## Homebuyer's Glossary

**ABR®** Accredited Buyer's Representative. A designation held solely by REALTORS® who have met the educational and practical requirements demonstrating skills and knowledge to represent homebuyers. Awarded by the Real Estate Buyer's Agent Council (REBAC).

**adjustable-rate mortgage (ARM)** A mortgage with an interest rate that changes, based on a specific index, after a predetermined number of years.

**agency** Any relationship in which one party (agent) acts for or represents another under the authority of the latter.

**amortization schedule** A timetable showing the amount of each mortgage payment applied to interest and principal and the remaining balance after payment is made.

**annual percentage rate (APR)** The cost of a mortgage stated as a yearly rate; includes such items as interest, mortgage, and loan origination fee (points).

**appraisal** A qualified appraiser's written analysis of the estimated value of a property.

**biweekly payment mortgage** A mortgage requiring payments every two weeks rather than the standard monthly payment. The benefit for the borrower is a substantial savings in interest over the life of the loan.

**broker** A person who, for a commission or a fee, brings parties together and assists in negotiating contracts between them.

**capital gains** The profit obtained from the sale of an asset, such as real estate.

**certificate of title** A statement provided by a title company or attorney stating that the title to real estate is legally held by the current owner.

**closing** A meeting at which a sale of a property is finalized.

**closing costs** Expenses incidental to a sale of real estate, such as loan fees, title fees, appraisal fees, etc.

**collateral** An asset (such as a car or a home) that guarantees the repayment of a loan.

**commission** The fee charged by a broker for providing services related to a real estate transaction, such as marketing the property (for the seller), finding a property (for the buyer), and negotiating a purchase contract.

**cost basis** The original price paid for an asset such as real estate, including any commissions or fees, used to determine capital gains or losses at the time of sale.

**deed** The legal document conveying title to a property.

**earnest money** A deposit made by potential buyers to demonstrate their good faith interest in purchasing a property.

**equity** The difference between the current market value of a property and the amount owed on the mortgage(s).

**escrow** A deposit of value, money, or documents with a third party to be delivered upon the fulfillment of a condition. For example, the earnest money deposit is put into escrow, held by the broker, bank or other party, until delivered to the seller when the transaction is closed.

**Fair Credit Reporting Act** A consumer protection law that regulates the disclosure of consumer reports by consumer/credit reporting agencies and establishes procedures for correcting mistakes on one's credit record.

**good-faith estimate** An estimate of closing costs associated with the purchase of your home.

**home inspection** A thorough examination that evaluates the structural and mechanical condition of a property.

**home warranty** A guarantee for mechanical systems and appliances, but not the structure, against repairs not covered by homeowners insurance; coverage is for a specific period of time.

**lien** A legal claim against a property that must be paid before the property can be sold.

**lock-in** A lender's written guarantee of a specified interest rate if a mortgage is closed within a set period of time.

**LTV (loan-to-value)** The ratio of the amount of a mortgage loan to the appraised value or sales price of the property mortgaged, whichever is lower.

**mortgage** A loan secured by real estate. A mortgage is used by a borrower to pledge real property to the lender as security for a loan.

**mortgage insurance** A contract that insures the lender against loss caused by a borrower's default on a mortgage.

**net worth** The value of all of a person's assets, including cash, minus all debts and liabilities.

**PITI** Principal, Interest, Taxes and Insurance: four components of a monthly payment on mortgage loans.

**PMI** Private Mortgage Insurance is coverage provided by a private mortgage insurance company to protect lenders against loss if a borrower defaults. Coverage is usually required for a loan with a loan-to-value (LTV) percentage in excess of 80 percent.

**points** A point is one percent of the amount of the mortgage. Lenders charge borrowers a percentage of the loan amount equal to the number of points to cover the lender's costs. Sometimes borrowers pay higher points in exchange for a lower interest rate.

**prime rate** The interest rate that banks charge to their preferred customers.

**principal** The amount borrowed or remaining unpaid on a mortgage loan.

**real estate agent** A person licensed to negotiate and transact the sale or purchase of real estate on behalf of the property owner or buyer.

**REALTOR®** The registered collective membership mark that identifies real estate professionals who are members of the National Association of REALTORS® and subscribe to its strict Code of Ethics.

**REBAC** The Real Estate Buyer's Agent Council is a wholly-owned subsidiary of the National Association of REALTORS® whose purpose is to educate and support real estate professionals and to promote superior buyer representation.

**sales contract** Also known as a purchase agreement, the legal document that details the price and terms of the property sale between a seller and a buyer.

**settlement statement** A document prepared by a broker, escrow company, or lender detailing the complete breakdown of the costs and disbursements in a real estate transaction.

**survey** A drawing or map showing the precise legal boundaries of a property, the precise location of improvements, easements, rights of way, encroachments, and other physical features.

**title search** A check of public records to ensure that the seller is the legal owner of the property being sold and that there are no liens or other claims against the property.

**Truth in Lending** A federal law that requires lenders to fully disclose, in writing, the terms and conditions of a mortgage, including the annual percentage rate and other charges the borrower will incur.

**underwriting** The lender's process of evaluating a loan application to determine the risk of providing the applicant the requested funds.

**walk through** A final inspection of a home before closing to verify that the condition of the property and contents are as contracted.

## **Tax Tips and Benefits for Buyers**

**(Note: Always consult a tax professional in all tax-related matters.)**

Some of your costs incurred at closing can be deducted on that year's income tax return. These costs include any prepaid mortgage interest and property taxes, and are listed in the settlement statement.

Many other closing costs are simply added to the cost basis for the property, so that when you sell, they will reduce the capital gains you may owe. If residency requirements are met, under current federal tax law capital gains on the sale of a personal residence of up to \$250,000 for unmarried sellers—\$500,000 for married sellers—are not taxed. Retain all records of the sale including those for capital improvements, which can also be added to your cost basis. While these records may save you a considerable amount of money in taxes owed, remember that you never know when the law will change.

On each year's income tax return, you may deduct all property taxes paid on any real estate you own.

You are also entitled to claim as deductions all mortgage interest paid on first and second homes. The deduction is limited to \$1 million dollars borrowed to buy or improve your properties, in addition to interest on an additional \$100,000 in equity loans or second mortgages. If your borrowing exceeds that amount, consult an accountant and financial planner.

### **Moving and Income Tax**

Many of your moving expenses may qualify as income tax deductions if your move is closely related to a job transfer or a new job located at least 50 miles farther away from where your old job was located.

Transferred members of the armed forces may also deduct moving expenses.

Expenses that may qualify are:

- Packing, transporting, and storing (for 30 days) household goods and personal effects
- Transportation and lodging (but not meals) for you and members of your household while traveling to your new home
- Mileage for use of your own car in moving goods, yourself or members of your household (or, alternatively, actual gas and oil expenses)
- Tolls and parking fees paid during the trip
- Disconnecting and connecting utilities
- Shipment of cars and pets

### **Internet Resources**

#### **REBAC.net**

A helpful resource for locating an Accredited Buyer's Representative (ABR®) in the area where you're looking to buy your home, the site is packed with home-buying information including the "Find a Buyer's Rep" search feature.

## **REALTOR.com**

The property listing Web site of the National Association of REALTORS® and the most extensive home-search tool online.

## **Finance Center: located on REALTOR.com**

This site offers a variety of tools and information to help you assess your finances and obtain a mortgage pre-qualification or pre-approval. You can learn more about various types of home loans, the application process, and how to select a lender. You can also track interest rates, order a copy of your credit report, and look up terms in a financial glossary.

## **Marketplace Listing: located at REALTOR.com**

A wide variety of products and services to help you during the buying, selling and moving processes.

## **FannieMae.com and FreddieMac.com**

Valuable information regarding lending options, rates, and opportunities from these federally-chartered corporations.

## **HUD.gov**

A wealth of resources about homes and communities from the Department of Housing and Urban Development.

## **Books**

### **Home Buyers and Sellers Toolkit**

*National Association of REALTORS®*

NAR has assembled five products into one convenient package to educate home buyers and sellers on the topics of mold, lead, radon, working with a REALTOR®, and preparing to buy or sell a home.

### **A Survival Guide for Buying a Home**

*Sid Davis*

Buying a home is one of the biggest decisions you'll ever make. This book provides more tools and information to purchase the right home for your budget the first time.

### **How a Second Home Can Be Your Best Investment**

*John Tuccillo and Tom Kelly*

Learn how to invest profitably in a vacation or future retirement home.

### **The Insider's Guide to Making Money in Real Estate**

*Dolf de Roos, Ph.D. and Diane Kennedy, CPA*

Learn why real estate is a consistently profitable moneymaker and how anyone can build their fortune through investing in real estate.

To purchase these or any other products from the National Association of REALTORS®, please visit [www.REALTOR.org/Store](http://www.REALTOR.org/Store)."

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