

The Home Buying Process



Putting the Pieces Together

THE HOME-BUYING PROCESS

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

Purchasing a home is a very important decision and a big undertaking in your life. In fact, most people only choose a few homes in their lifetime. We are going to make sure that you are well equipped and armed with up-to-date information for your big decision. We are even prepared to guide you through every phase of the home-buying process. The information that you'll be receiving from us will be useful during and after your transaction. Use the reference pages, note pages, and agency explanations as an invaluable guide on your home-buying journey.

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

WHY YOU NEED A REALTOR?

As licensed real estate professionals we provide much more than the service of helping you find your ideal home. Realtors® are expert negotiators with other agents, seasoned financial advisors with clients, and superb navigators around the local neighborhood. They are members of the National Association of Realtors (NAR) and must abide by a Code of Ethics and Standards of Practice enforced by the NAR. A professional Realtor® is your best resource when buying your home.

LET US BE YOUR GUIDE —

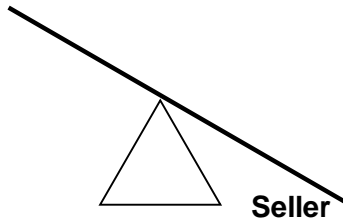
- As knowledgeable Realtors® we can save you endless amounts of time, money, and frustration.
- As knowledgeable Realtors® we know the housing market inside and out and can help you avoid the “wild goose chase.”
- As knowledgeable Realtors® we can help you with *any* home, even if it is listed elsewhere or if it is being sold directly by the owner.
- As knowledgeable Realtors® we know the best lenders in the area and can help you understand the importance of being pre-qualified for a mortgage. We can also discuss down payments, closing costs, and monthly payment options that suit you.
- As knowledgeable Realtors®, we are an excellent source for both general and specific information about the community such as schools, churches, shopping, and transportation - - plus tips on home inspections and pricing.
- As knowledgeable Realtors®, we are experienced at presenting your offer to the homeowner and can help you through the process of negotiating the best price. We bring objectivity to the buying transaction, and we can point out the advantages and the disadvantages of a particular property.

And the best thing about us as your Realtors® is that all this help normally won't cost you a cent. Generally, the seller pays the commission to the Realtor®.

UNDERSTANDING AGENCY...

Who Works for Whom?

Buyer



SELLER AGENCY (SINGLE AGENCY)

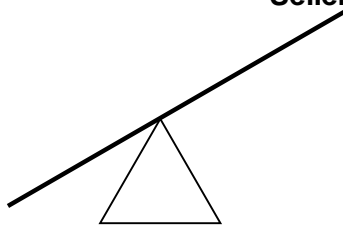
- Agent will represent the best interests of the seller
- Agent will owe the seller fiduciary duties
- Agent must give the buyer all material facts so that the buyer can make an educated decision

Seller

BUYER AGENCY (SINGLE AGENCY)

- Agent will represent the best interests of the buyer
- Agent will owe the buyer fiduciary duties
- Agent must give the seller all material facts so that the seller can make an educated decision

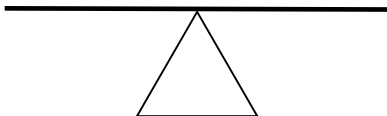
Buyer



TRANSACTION BROKER (DUAL AGENCY)

- Agent represents both the buyer and the seller equally
- Agent's objective is to get a mutually satisfactory agreement among all parties
- Agent gives all options to the buyer and the seller
- Depending on the local market, all parties may be present at contract presentation to negotiate on their own behalf
- All parties have confidentiality. Agent may do nothing to the detriment of either the buyer or the seller
- Both the buyer and the seller have a right to counsel. Before making any decisions, both parties have the right to seek family, religious, legal, or financial counsel.

Buyer



Seller

In all relationships, as your Agent we have a duty to act honestly with both the buyer and the seller.

THE ADVANTAGES OF A BUYER AGENCY AGREEMENT

YOUR INTERESTS ARE PROFESSIONALLY REPRESENTED —

Enlisting the services of a professional Buyer's Agent is similar to using an accountant to help you with your taxes, a doctor to help you with your health care, or a mechanic to help you with your car. If you had the time to devote to learning everything about accounting, medicine, and automotive mechanics, you could do these services yourself. But who has the time? This is why you allow other professionals to help you in their specific areas of expertise.

We will take care of the hassles of everyday real estate transactions for you. We let you concentrate on your full-time job, while we do our job. We will guide you through the home-buying process and exclusively represent your interests as we help you find a home, present your contract offer, negotiate, and close on your home!

YOU GET A PERSONAL SPECIALIST WHO KNOWS YOUR NEEDS —

Just as your accountant, doctor, and mechanic understand your specific needs, your Buyer's Agent gets to know your real estate needs and concerns. This type of relationship is built through open communication at all times. Your Buyer's Agent will save you a lot of time by providing you all the details about any home before you see it. In addition, your Buyer's Agent will listen to your feedback and concerns about each home.

YOU WILL QUICKLY AND CONVENIENTLY GET A GREAT HOME —

The advantage to signing a Buyer's Agency Agreement with us is that you will have a professional agent working to find and secure the ideal home for you. It is nearly impossible to find a home that meets your needs, get a contract negotiated, and close the transaction without an experienced agent. You won't need to spend endless evenings and weekends driving around looking for homes or trying to search computer networks by yourself. When you tour homes with your professional Buyer's Agent, you will already know that the homes meet your criteria and are within your price range.

WHAT IS THE BUYER'S AGENCY AGREEMENT —

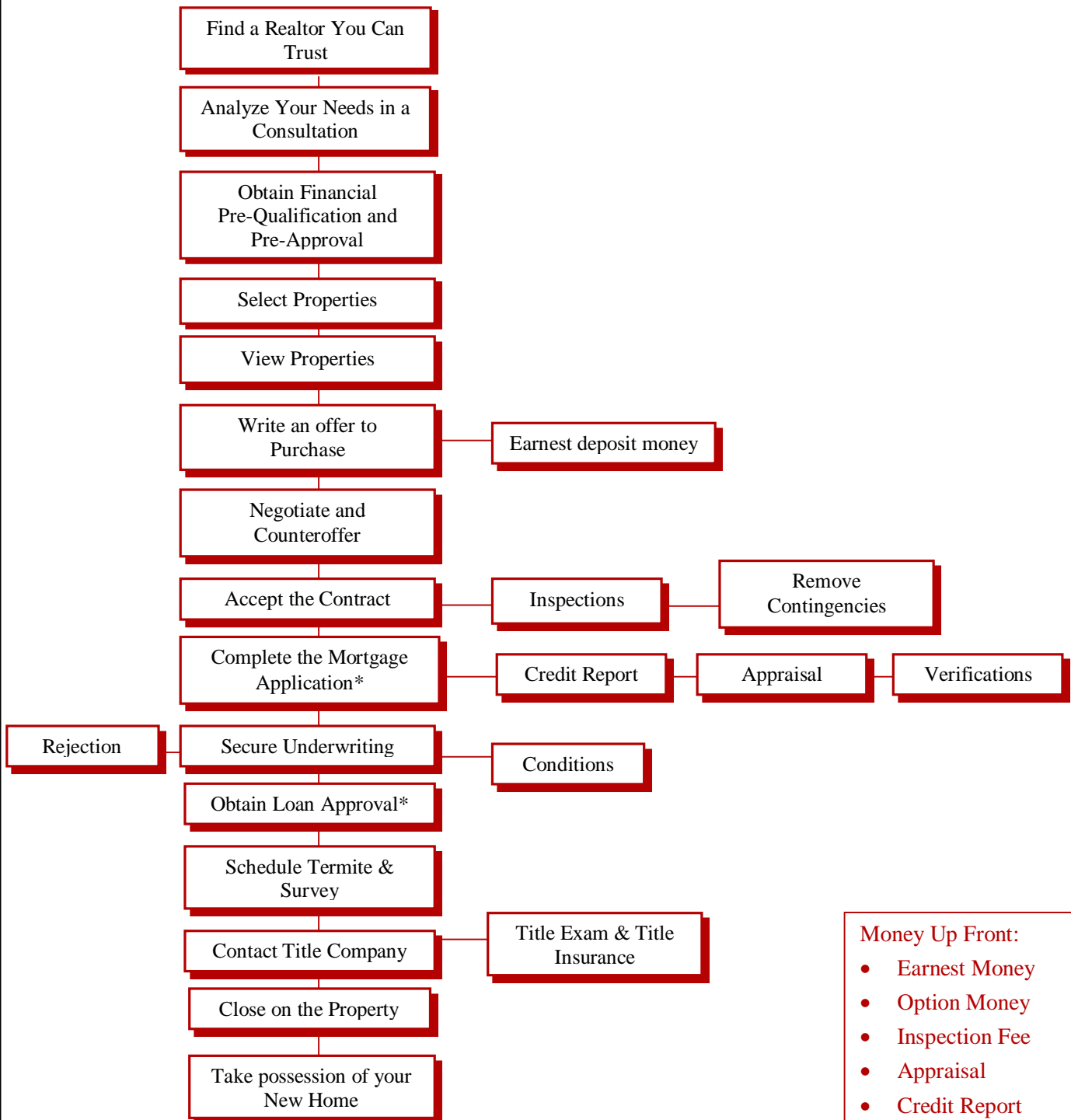
Entering into a Buyer's Agency Agreement has countless advantages. When you sign the agreement, you are simply agreeing to "hire" a personal representative who, by law, must represent your best interests to the best of his/her ability. All of this personal service is available at absolutely NO COST TO YOU! The Seller's Agent is responsible for paying your Buyer's Agent fee. With us, you get a professional agent devoted to protecting your needs and to helping you make one of the most important investment decisions of your life — and you don't even have to pay the fee!

REASONS TO BUY A HOME

1. Quality of Life
2. Tax Deductibility of Mortgage Interest
3. Tax Deductibility of Property Taxes
4. Appreciation Potential
5. Deferred Gain and Capital Gain Treatment
6. Once in a Lifetime Exclusion
7. Principal Accumulation
8. Pride in Your Home
9. No Landlord
10. Leverage (where else can you buy this size of an investment with 5-10% down)
11. The Real Cost of Renting (At \$700 per month, with a 6% rental increase per year, you will pay \$110,719 over a 10 year period.)

THE HOME-BUYING PROCESS

It is our goal to provide you with the most professional and informative service available. We are always just a phone call away!



*If not already pre-approved

WHAT EVERY BUYER SHOULD KNOW BEFORE PURCHASING

1. Property taxes and qualified interest are deductible on an individual's federal income tax return.
2. Often, a home is the largest asset an individual has and is considered one of the most valuable investments available.
3. A portion of each amortized mortgage payment goes to principal which is an investment.
4. A home is one of the few investments that you can enjoy by living in it.
5. A REALTOR® can usually show you any home whether it is listed with a company, a builder, or even a For Sale By Owner home.
6. Working through a REALTOR® to purchase a For Sale By Owner home can be very advantageous because someone is looking out for your best interest.
7. Your Real Estate professional can provide you with a list of items you'll need to complete your loan application so you'll be prepared.
8. A homeowner can exclude up to \$500,000 of capital gain tax if married and filing jointly or up to \$250,000 if single or filing separately. The home must have been the taxpayer's principal residence for the previous two years.
9. Beginning with May 07, 1997, there is no longer a requirement to purchase another home more expensive than the one sold. Homeowners are free to buy up or down with no tax consequences assuming their gain is less than the allowable amounts.
10. Ask the Real Estate professional if they are familiar with the neighborhoods where you want to live.
11. Ask the Real Estate professional whom he/she is representing in the transaction.
12. Ask the Real Estate professional what he/she will do to keep you informed.
13. Your Real Estate professional should provide you with the highest level of service and advice.

BEFORE WE BEGIN... PRE-QUALIFICATION AND PRE-APPROVAL

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

Pre-qualifying will help you in the following ways:

1. Generally, interest rates are locked in for a set period of time. You will know in advance exactly what your payments will be on offers you choose to make.
2. You won't waste time considering homes you cannot afford.

Pre-approval will help you in the following ways:

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

HOW MUCH HOME CAN YOU AFFORD?

There are three key factors to consider:

1. The down payment
2. Your ability to qualify for a mortgage
3. The closing costs associated with your transaction.



DOWN PAYMENT REQUIREMENTS:

Most loans today require a down payment of between 3.5% and 5.0% depending on the type and terms of the loan. If you are able to come up with a 20-25% down payment, you may be eligible to take advantage of special fast-track programs and possibly eliminate mortgage insurance.

CLOSING COSTS:

You will be required to pay fees for loan processing and other closing costs. These fees must be paid in full at the final settlement, unless you are able to include them in your financing. Typically, total closing costs will range between 2-5% of your mortgage loan.

QUALIFYING FOR THE MORTGAGE:

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

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

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

HOW MUCH CAN YOU AFFORD?

Use the following to chart to determine your monthly principal and interest payments at various interest rates for either a 15 or 30-year term.

INTEREST RATE FACTORS PER \$1,000					
Interest Rates	Term 15 Years	Term 30 Years	Interest Rate	Term 15 Years	Term 30 Years
4	7.40	4.77	8	9.56	7.34
4 ¼	7.52	4.92	8 ¼	9.70	7.51
4 ½	7.65	5.07	8 ½	9.85	7.69
4 ¾	7.78	5.22	8 ¾	9.99	7.87
5	7.91	5.37	9	10.14	8.05
5 ¼	8.04	5.52	9 ¼	10.29	8.23
5 ½	8.17	5.68	9 ½	10.44	8.41
5 ¾	8.30	5.84	9 ¾	10.59	8.59
6	8.44	6.00	10	10.75	8.77
6 ¼	8.57	6.16	10 ¼	10.90	8.96
6 ½	8.71	6.32	10 ½	11.05	9.15
6 ¾	8.85	6.48	10 ¾	11.21	9.33
7	8.99	6.65	11	11.36	9.52
7 ¼	9.13	6.82	11 ¼	11.52	9.71
7 ½	9.27	6.99	11 ½	11.68	9.90
7 ¾	9.41	7.16	11 ¾	11.84	10.09

1. Find the appropriate interest rate from the chart above.
2. Look across the column to the appropriate term to determine your interest rate factor.
3. Multiply the interest rate factor by your loan amount in \$1,000s.

AN EXAMPLE

Interest Rate = 6 ½
 Desired term = 15 years
 Interest rate factor per \$1,000 = 8.71
 Mortgage = \$200,000
 Monthly Principal & Interest = \$1,742 (8.71 x 200)

Add your monthly insurance premium and your property tax to your principal and interest to determine your total monthly payment.

We are providing this information as a guide. We strongly recommend that you contact our mortgage specialist.

THE TEN COMMANDMENTS

When applying for a Real Estate Loan

1. Thou shalt not change jobs, become self-employed or quit your job.
2. Thou shalt not buy a car, truck or van (or you may be living in it)!
3. Thou shalt not use charge cards excessively or let your accounts fall behind.
4. Thou shalt not spend money you have set aside for closing.
5. Thou shalt not omit debts or liabilities from your loan application.
6. Thou shalt not buy furniture.
7. Thou shalt not originate any inquiries into your credit.
8. Thou shalt not make large deposits without first checking with your loan officer.
9. Thou shalt not change bank accounts.
10. Thou shalt not co-sign a loan for anyone.



MAKING AN OFFER



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

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

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

The step-by-step contract procedure for most single-family home purchases is standard. The purchase agreement used is a standard document approved by our local Board of Realtors.

The purchase agreement or contract constitutes your offer to buy and, once accepted by the seller, becomes a valid, legal contract. For this reason, it is important to understand what is written on the contract offer.

BEHIND THE SCENES

WHAT HAPPENS NEXT?

Now that you have decided to buy your home, what happens between now and the time you legally own the home? A Title Company may handle the following items. NOTE: in different parts of the country attorneys, lenders, escrow companies and other persons who are independent of, title companies perform some or all of these functions.

Earnest Money – An agreement to convey starts the process once it is received at the Title Company. Once you submit the loan application, it is usually subject to a credit check, an appraisal, and sometimes, a survey of the property.

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

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

Examination – Verification of the legal owner and debts owed.

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

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

Title Insurance - There are two types of title insurance:

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

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

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

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

HOME INSPECTION

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

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

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

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

The seller may be willing to negotiate completion of repairs or a credit for completion of repairs, or you may decide that the home will take too much work and money. A professional inspection will help you make a clear-headed decision. In addition to the overall inspection, you may wish to have separate tests conducted for termites or the presence of radon gas.

In choosing a home inspector, consider one that has been certified as a qualified and experienced member by a trade association.

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

WHAT IS A REAL ESTATE CLOSING

WHAT IS A REAL ESTATE “CLOSING”?



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

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

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

WHAT IS AN ESCROW ACCOUNT?

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

GLOSSARY

ACCEPTANCE: The date when both parties, seller and buyer, have agreed to and completed signing and/or initialing the contract.

ADJUSTABLE RATE MORTGAGE: A mortgage that permits the lender to adjust the mortgage's interest rate periodically on the basis of changes in a specified index. Interest rates may move up or down, as market conditions change.

AMORTIZED LOAN: A loan, which is paid in equal installments during its term.

A.P.R. (ANNUAL PERCENTAGE RATE): A term used in the Truth in Lending Act. It represents the relationship of the total finance charge (interest, discount points, origination fees, loan broker, commission, etc.) to the amount of the loan.

APPRAISAL: An estimate of real estate value, usually issued to standards of FHA, VA, and FHMA. Recent comparable sales in the neighborhood is the most important factor in determining value. This should be contrasted against the home inspection.

APPRECIATION: An increase in the value of a property due to changes in market conditions or other causes. The opposite of depreciation.

ASSUMABLE MORTGAGE: Purchaser takes ownership to real estate encumbered by an existing mortgage and assumes responsibility as the guarantor for the unpaid balance of the mortgage.

BILL OF SALE: Document used to transfer title (ownership) of PERSONAL Property.

CLOSING STATEMENT (HUD1): A financial statement rendered to the buyer and seller at the time of transfer of ownership, giving an account of all funds received or expended.

CLOUD ON TITLE: Any condition that affects the clear title to real property.

COMPARABLE SALES: Sales that have similar characteristics as the subject property and are used for analysis in the appraisal process.

CONTRACT: An agreement to do or not to do a certain thing.

CONSIDERATION: Anything of value to induce another to enter into a contract, i.e., money, services, a promise.

DEED: Written instrument, which when properly executed and delivered, conveys title to real property.

DISCOUNT POINTS: A loan fee charged by a lender of FHA, VA or conventional loans to increase the yield on the investment. One point = 1% of the loan amount.

EASEMENT: The right to use the land of another.

ENCUMBRANCE: Anything that burdens (limits) the fee title to property, such as a lien, easement, or restriction of any kind.

EQUITY: The value of real estate over and above the liens against it. It is obtained by subtracting the total liens from the value.

ESCROW PAYMENT: That portion of a mortgagor's monthly payment held in trust by the lender to pay for taxes, hazard insurance, mortgage insurance, lease payments and other items as they become due.

FANNIE MAE: Nickname for Federal National Mortgage Corporation (FNMA), a tax-paying corporation created by congress to support the secondary mortgages insured by FHA or guaranteed by VA, as well as conventional home mortgages.

FEDERAL HOUSING ADMINISTRATION (FHA): An agency of the U.S. Department of Housing and Urban Development (HUD). Its main activity is the insuring of residential mortgage loans made by private lenders. The FHA sets standards for construction and underwriting but does not lend money or plan or construct housing.

FHA INSURED MORTGAGE: A mortgage under which the Federal Housing Administration insures loans made, according to its regulations

FIXED RATE MORTGAGE: A loan that fixes the interest rate at a prescribed rate for the duration of the loan.

FORECLOSURE: Procedure whereby property pledged as security for a debt is sold to pay the debt in the event of default.

FREDDIE MAC: Nickname for Federal Home Loan Mortgage Corporation (FHLMC), a federally controlled and operated corporation to support the secondary mortgage market. It purchases and sells residential conventional home mortgages.

GRADUATED PAYMENT MORTGAGE: Any loan where the borrower pays a portion of the interest due each month during the first few years of the loan. The payment increases gradually during the first few years to the amount necessary to fully amortize the loan during its life.

INVESTOR: The holder of a mortgage or the permanent lender for whom the mortgage banker services the loan. Any person or institution that invests in mortgages.

LEASE PURCHASE AGREEMENT: Buyer makes a deposit for future purchases of a property with the right to lease the property for the interim.

LOAN TO VALUE RATION (LTV): The ratio of the mortgage loan principal (amount borrowed) to the property's appraised value (selling price). Example – on a \$100,000 home, with a mortgage loan principal of \$80,000 the loan to value ratio is 80%.

MORTGAGE: A legal document that pledges a property to the lender as security for payment of a debt.

MORTGAGE INSURANCE PREMIUM (MIP): The amount paid by a mortgagor for mortgage insurance. This insurance protects the investor from possible loss in the event of a borrower's default on a loan.

MORTGAGOR: The borrower of money or the giver of the mortgage document.

NOTE: A written promise to pay a certain amount of money.

ORIGINATION FEE: A fee paid to the mortgagee for paying the mortgage before it becomes due. Also known as prepayment fee or reinvestment fee.

PRIVATE MORTGAGE INSURANCE (PMI): See Mortgage Insurance Premium.

PROMISSORY NOTE: A written contract containing a promise to pay a definite amount of money at a definite future time.

REALTOR: A member of local and state real estate boards, which are affiliated with the National Association of Realtors (NAR).

RENT WITH OPTION: A contract, which gives one the right to lease property at a certain sum with the option to purchase at a future date.

SECOND MORTGAGE/SECOND DEED OF TRUST/JUNIOR MORTGAGE OR JUNIOR LIEN: An additional loan imposed on a property with a first mortgage. Generally, a higher interest rate and shorter term than a “first” mortgage.

SEVERALTY OWNERSHIP: Ownership by one person only. Sole ownership.

SURVEY: The process by which a parcel of land is measured and its area ascertained.

TENANCY IN COMMON: Ownership by two or more persons who hold an undivided interest without right of survivorship. (In event of the death of one owner, his/her share will pass to his/her heirs.)

TITLE INSURANCE: An insurance policy which protects the insured (purchaser or lender against loss arising from defects in the title).