

HOME BUYERS HANDBOOK



How To Buy A Home
In Today's Market

Complements of Marty and Laurie Gale, RE/MAX METRO
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How To Buy A Home In Today's Market

Buying a home raises a lot of questions. We know because we answer those questions every day. Through the years we've found some basic questions turn up again and again. Yet different buyers have different needs and a constantly changing marketplace raises new questions.

Our goal is to help you get straight answers to your questions. To make it easier for you, we've put our experience into this handbook. You'll find answers to basic and difficult questions. You'll also find we've grouped our know how into three parts: **Getting Started, House Hunting** and **Buying**.

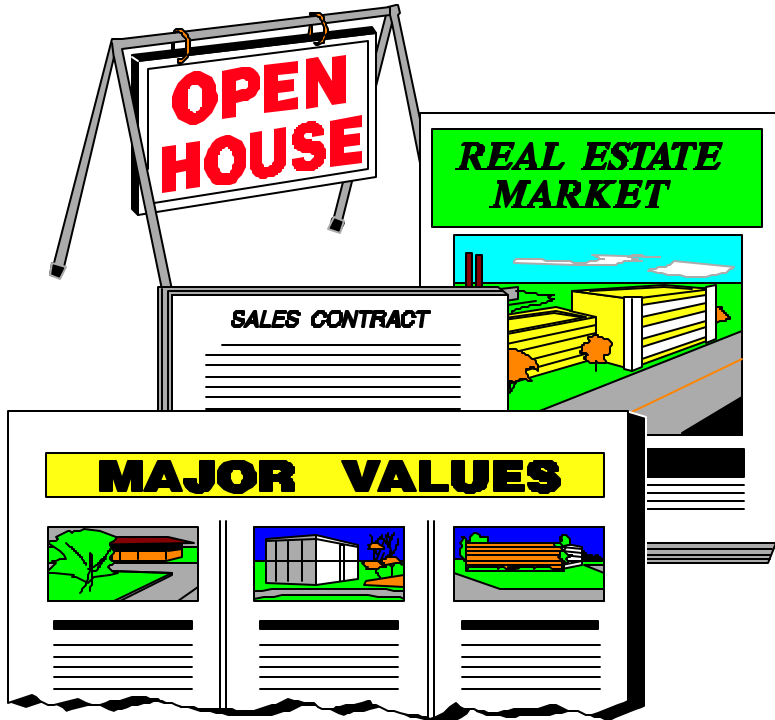
In the next pages you'll develop your own "road map" to finding the home that best suits your needs. Once you're finished reading, you'll probably have even more questions. That's when a professional real estate agent will begin to guide you personally through the home buyer's maze and answer your specific questions as they come up.

From experience we know there is no substitute for the knowledge of a professional agent. After all, home buying is an adventure to be enjoyed and an agent can make your home search easier and faster. We look forward to working with you.

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Getting Started



The first step toward owning a home is to look at all the possible roads available to you. This first section covers the basics that concern all home buyers - from developing a house hunting strategy (by figuring how much you can afford to spend, and how to line up for finances) to actually starting out on your search.

Where do I start?

First things first. After you've browsed through the handbook awhile, ask yourself why you want to buy a home: To stop paying rent? To start building equity? To have a place of your own? To move up to a bigger home?

Next, list what kind of home you would like and where you would like it to be. Be specific. Separate the “must have” from the “want to have.” Rate both lists on a scale from 5 (high) to 1 (low).

Think of yourself as zeroing in on a target, going from the general to the specific. Consider area (city, suburban, country); community (north, south, east or west side); neighborhood (older and settled or sparkling new; a particular school; recreational facilities; and other community services, such as transportation, day care, library, stores, entertainment) Ask yourself how many minutes you’re willing to commute to work.

Think about home styles (1-story, 2-story, townhouse, condominium, etc.) How much space do you need, and how much will you need in the foreseeable future (number of bedrooms, baths; kind of kitchen and total rooms)? Consider size and kind of property. Do you want a new home, an older one to fix up? Is the community a good area for resale? Someday you or your heirs will want to sell. Consider how long you expect to live in this particular home. Keep going with whatever you want to add.

Knowing exactly what you think you want makes house hunting and later decisions easier when you get into the nitty-gritty aspects of buying. Many people like to start a “house hunter’s notebook” to keep their requirements clearly in mind and to compare specific properties. You’ll find as you return again and again to your original thinking that your preferences become clearer - and your search becomes more efficient.

Exactly how will a real estate agent help me buy a home?

Brokers and agents make it their business to provide every service connected with your search for housing, from expert advice in the early stages through careful monitoring of your closing. The closer you work with your Realtor the better your needs are known. They will be more effective in serving you. This will save you time, money and stress.

All agents are bound by law to deal fairly and ethically with both buyer and seller. Traditionally, the agent who drives buyers from home to home and assists them - from analyzing your housing needs to guiding you through settlement - is legally required to represent the interests of the seller, who pays the agent’s commission. If you’re working with a “seller’s agent,” you must decide yourself what offers to make and what counter offers to accept.

Some buyers choose instead to work with a “buyer’s agent,” whose legal obligation is to represent the interests of the buyer. A “buyer’s agent,” whose fee or commission may be paid by either buyer or seller, is able to negotiate sale price and terms on behalf of the buyer.

You benefit from an agent’s services in many ways such as:

- Helping you set up a plan of action through an analysis of your needs and your finances, the current housing market, homes available in your price range, and lenders’ mortgage options.
- Personally conducting your search to find neighborhoods and homes that fit your requirements.
- Assisting you through both the pre-settlement and settlement processes.

What do people mean when they say home ownership is the key to financial security?

The benefits of home ownership are both financial and psychological:

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- Home ownership is a durable (real) investment. Historically housing has appreciated in value for decades. Although no one can say a specific home in a specific location will increase in value, generally speaking the odds favor most homeowners. Also, monthly mortgage payments (the part that reduces the principal loan balance) becomes a solid form of savings.

- Numerous unique tax advantages are available to homeowners. Unlike other investment tax shelters, home ownership works for you even as you live in your investment. For example, the thousands of dollars you pay in mortgage interest (discussed below) is deductible. This tax deduction alone can sometimes make owning your own home cheaper than renting with “after tax” take home dollars.

- By accumulating equity in your home, you can later “move up” to another home, with a good down payment on hand.

- Home ownership offers you the opportunity to take control of your housing costs.

Mortgage payments (even on adjustable rate mortgages) are more predictable than rent.

- Owning your own home allows great freedom of choice in choosing your community, architecture, interior decor, appliance selection, plus whatever method of financing best suits your situation.

What are some of tax advantages of owning a home?

Tax breaks enter the home ownership picture from all angles: buying, owning and selling. Remember, tax laws are constantly changing and complex, and you should consult with your professional tax advisor before filing any claims on your tax returns. Here are the basics as of this writing:

Home Buying

Tax savings begin with deductions allowed for:

- Settlement charges for the use of money, such as “points.” (A point is a sum equal to one percent of your loan amount. Points are charged to increase a lender’s yield and attract money into the housing market. For example, one point on an \$86,000 loan is \$860; two points total \$1,720.)

- Prepaid interest on prorated loan payments made between settlement and your first mortgage payment.

- City, town and/or county real estate taxes on the purchases property.

Home Ownership

Your home provides shelter for both you and your taxes. For example:

- The interest paid on your loan is deductible, as are your property taxes. This interest deduction is also a major tax advantage in owning a second home for yourself.

- You may deduct a portion of your home expenses if you have a qualifying home office.

- Many health related additions to your home required by your doctor (such as air conditioning for an asthma sufferer) are deductible, provided the addition does not add to the value of your home.

- Casualty losses (such as flooding, hurricane damage, etc.) that are not reimbursed by insurance are deductible, subject to income limits.

Home Selling

When you sell your home tax savings help defray many of the expenses of selling, such as:

- “Fix up” expenses incurred in repairing your home for sale may be deducted, as long as the repairs have been made within 90 days of closing, and are not capital improvements (such as a new roof).

- If, when you sell, you have to pay a penalty for prepaying your mortgage, that charge can be deducted. Fortunately, few mortgages have prepayment penalties today.

- Under certain conditions, you may deduct moving expenses within limits.

- If, within two years of selling, you buy a new home of equal or greater value, you can defer payment of any tax on the sale of your old home.

- When that deferred tax comes due, you can subtract the cost of home improvements from your net sale price (“net sale price” is your sale price minus closing costs, broker’s and lawyer’s fees). You can also subtract title insurance fees, recording fees, transfer taxes and other acquisition costs. This reduces your gain, and also your taxes.

- If you’re 55 or older and have lived in your home for 2 years, you do not have to pay taxes on gains up to \$250,000 for you and \$250,000 for your spouse.

Is it true my paycheck will get bigger when I buy a home?

Yes, if you’re renting now or if your mortgage interest payments are higher than you pay now. Buying a home adds to your “take home” paycheck because you can increase your withholding allowances in anticipation of mortgage interest payment deductions on your next tax return. By increasing your allowances, you reduce the amount withheld to pay future taxes - which puts your tax refund in your paycheck today, not at the end of the year.

Ask your tax professional to estimate how many allowances you should claim to compensate for reduced taxes caused by the interest deductions.

What price home can I afford to buy?

The easy answer to this all important question of price is simply adding how much you can afford to borrow to how much you have available for your down payment investment. The total is your maximum affordable home price. (Remember to keep enough cash or credit left over for move in expenses and an emergency reserve.) The harder answer is how much you are qualified to borrow.

For starters, you can put the most frequently used lenders’ rule of thumb to work: the 28% and 36% formulas. This is the test many lenders use to qualify applicants for conventional mortgage loans (though some lenders and mortgage plans apply stricter codes, such as 25% and 33%, especially if your down payment is less than 20% of the sale price.)

The 28% test permits you to spend no more than 28% of your gross monthly income on your total monthly housing costs, including principal, interest, taxes and insurance (P.I.T.I) and condominium fees, if any. For example: 28% of a \$3,600 gross monthly income would qualify a buyers for a \$1,008 per month payment.

The 36% limit covers both your P.I.T.I. and long term debts (more than 10 months) such as alimony, regular household expenses (mortgage insurance and/or condominiums or association fees), outstanding loans (car, appliances, school), support for children (resident or living separately). For example: 36% of \$3,600 would qualify for a \$1,296 payment per month.

In our examples, the affordable loan payments for an income of \$3,600 per month is a range between \$1,008 a month home payment and \$1,296 a month combined home and debt payments. (Strict lenders may use only the 28% standard, even with no debts, or ask you to meet both standards.)

In addition to your loan, the cash you have on hand (plus the cash you can acquire) is an important factor. You will need cash for a down payment (ranging from 0-5-10-20% or more of the sale price), closing costs, moving expenses, possible immediate repairs, remodeling, new appliances or furnishings. Also be sure to budget for utilities and maintenance. This takes some figuring.

An agent can help translate your affordable monthly payment into a total loan amount. Add this loan amount to you desired down payment amount and you get the approximate range of home prices you can afford.

Your next step is to shop carefully for the loan that will keep your mortgage payments in line with your budget. Different mortgage plans can dramatically affect your monthly payment - and thus the price home you can afford. Also other plans, especially FHA and VA mortgages, may offer you much more liberal qualifying standards - again allowing you more home for your income.

Today's financing techniques can be confusing. What are the basic types of loans I should know about?

Here is a brief run down of four major mortgage plans.

Fixed Rate Conventional Mortgage. A conventional loan is a loan made to a buyer without a third party participant, such as VA or FHA. Fixed rate conventional loans are typically paid off in equal monthly payments spread over 15, 20 or 30 years. The interest rate stays the same for the life of the loan; therefore the monthly principal and interest payment remains constant. Shorter terms mean somewhat higher monthly payments. Shorter terms mean somewhat higher monthly payments. Shorter terms also mean more rapid equity growth, mortgage pay-off and dramatic savings on total interest payments.

Terms of a conventional loan vary among lenders, but many can be obtained with as little as 5-10% down payment. When the down payment is less than 20% it is necessary to obtain private mortgage insurance (PMI) to protect the lender from a buyer's default.

Advantage: quick processing and stable payments.

Adjustable Rate Mortgage (ARM; also "variable rate"). The interest rate may go up or down over the years and is tied to a financial market index (such as one year Treasury bills). Monthly payments may also be adjusted on a periodic schedule. Most ARMs set a maximum adjustment (or "cap") on possible increases to interest rates, monthly payments, and/or a maximum cap on rates for the life of the loan.

Advantage: The lower initial interest rate and monthly payment allows the buyer to pay less in the early years for a longer loan and help buyers qualify for a more expensive house than with a fixed rate loan. Caps offer peace of mind rate ceilings.

FHA Loan. Strictly speaking, FHA does not make loans' rather it insures loans, which increases lenders' willingness to make low down payment loans.

With an FHA-insured loan, a home buyer can make a small down payment, a feature particularly attractive to first time buyers. The down payment can be as low as 2.25 percent, depending on the size of the loan. Second mortgages are permitted within specific guidelines.

Points (prepaid interest) can be charged by the lender. The purchaser may negotiate the interest rate and points with the seller. FHA buyers of single-family homes can finance 100% of closing costs.

FHA charges an advance mortgage insurance premium (MIP) fee, as well as, a monthly charge for all loans. Ask an agent how much the fee would be in your situation, and if you can borrow some of the fee and add it to the loan rather than measurably increasing your closing costs.

FHA insured mortgages offer a maximum loan amount that varies area to area.

Advantage: Low down payment; low interest rates; long terms; many are fully assumable loans; no prepayment penalty; second mortgage permitted under certain circumstances.

VA Loan: Qualified veterans can take out loans up to a specific limit with no down payment. These limits occasionally change; check with an agent for current rules. VA guaranteed loans can be combined with second mortgages and are fully assumable by any qualified buyer. Rates and points may be negotiated with the lender.

VA/FHA qualification guidelines are more flexible than those for conventional loans. Actual income qualifications are dependent on the type of loan requested.

Advantage. Usually no down payment; points can be paid only by the seller, although the buyer is charged a loan origination fee (tax deductible); no prepayment penalty; assumption may make your home very attractive to buyers when you decide to sell.

How much down payment should I make?

There are advantages to both large and small down payments, and which you choose depends on both personal choice and your financial circumstances.

Advantages of large down payment: less mortgage to pay off, smaller monthly mortgage payments and greater opportunity to find lower interest rates.

Advantages of a small down payment: Less cash out of hand, therefore more money for other costs; a larger monthly mortgage payment means a larger tax deduction for mortgage interest.

With an FHA loan or less than a 20% down payment on a conventional loan, you will be required, by the lender, to take out mortgage insurance. The FHA (Federal Housing Administration) call is MIP (Mortgage Insurance Premium), while private companies call it PMI (Private Mortgage Insurance).

What are the best sources of cash for a down payment?

If your own bank account isn't large enough, you have several options. For example:

- Receive a tax-free gift from your parents (or others) documented by a "gift letter" stating no repayment is required (thus your debt burden is not increased). Some lenders may require you to use some of your own money in addition to the gift.
- Borrow against a life insurance policy.
- Borrow against a company pension plan.
- Cash in a retirement savings plan (even though you may have to pay a penalty for early withdrawal).
- Obtain an advance on a future inheritance.

- Use your own business as collateral.
- Team up with friends, relatives or investors as partners in return for equity in your home. (You can, if you like, buy them out later.)

Should I shop for a loan before or after I find a place to buy?

It's a good idea to let an agent help you look for financing **before** you find a home. The agent is in constant contact with many lenders, and can act as an invaluable "clearing house" of information. If you are actively house hunting but have not found the right home yet, ask the lender to do a "pre-approval application." This details your income, debts and assets.

Knowing where you stand concerning how much money a lender will lend you (based on your income and credit rating) puts you in a good bargaining position. Sellers faced by deciding between two buyers - one who is "pre-approved" by a lender - may favor the offer of the buyer for whom getting a loan is almost a sure thing.

On Your Mark. Get Set. Go!

Now that you've mapped out your strategy, determined what you want to look for in general and lined up a real estate agent, you'll want to discover all you need to know about intelligent, time saving and money saving house hunting. That's what our next section is all about.

House Hunting



From experience we know once you've mapped out a good strategy, you and an agent are on firm ground to begin hunting for the home that's right for you. House hunting is a logical process the agent has experienced over and over again. As you turn corners and discover new questions along the way, you can count on expert guidance to take you through the maze of evaluating homes and neighborhoods and to understand today's mortgage market. You're well on your way.

What steps are involved in house hunting?

Your first step is to consult with the real estate agent and outline a sound home search strategy (as discussed in “Getting Started,” Chapter 1). Next (in approximate order) comes researching, with the agent’s help, areas, neighborhoods, homes and financing.

Then you start moving, touring neighborhoods and inspecting homes. When you find what you like, you make an offer to purchase (possibly contingent on a home inspection, financing, etc.). After you reach an agreement with the seller, who signs the offer to purchase (also “binder,” or for new homes, it’s a “contract of sale”), you may want to have the home inspected to remove the contingency. Then you consult with the agent about lenders and your mortgage application comes next.

About this time you may hire a lawyer to review your contract, mortgage, and perhaps other matters if you feel it’s necessary. Once your mortgage is approved, you take out whatever insurance policies you’ll need.

As closing date approaches, you notify movers, utility and phone companies. At settlement, you sign a collection of documents, and pay your down payment and closing costs. In return, you get copies of the papers and the keys to your new home.

What’s the best way to know what kind of home is right for me?

By examining your lifestyle carefully. Ask yourself such questions as:

- “How much time do I expect to be at home?” If you’re a real homebody, you might think about a single family home with an inviting yard that will take hours of care; if you’re on the run a lot, a condominium - with no yard care - might suit you better.
- “Do I really like swinging a hammer?” If so, an older home’s a good bet.
- “Do I like neighbors around but want a good sized home, not an apartment?” Perhaps a townhouse would suit you best.
- “What style home attracts me?” Each has practical as well as aesthetic advantages. See the illustrations of specific home styles in this chapter.

What’s the most efficient way to know what’s on the market?

The primary source of information about what’s happening today in the housing market is the local Multiple Listing Service (MLS). Brokers throughout your area enter properties for sale into the MLS, and an agent can show you any home listed, or in some areas the agent calls the listing agent first.

Before you actually hit the road you can search the system to find homes that meet your description: area, property size, kind of home, style, number and size of rooms, appliances, water and heating/cooling systems: plus extra features such as fireplaces, saunas, landscaping, pools, etc.

Financial information is also included: price, mortgage balances, monthly payments, cash needed to assume the seller’s mortgage (if it’s assumable), whether or not the seller offers second mortgaging, and annual taxes.

What should I look for in a neighborhood?

Some neighborhoods speak loud and clear at first glance: the quality of life is apparent in its streets, parks, buildings, homes and yards, and the folks you see. You get a feel for it (either for or against) just by looking.

A real estate agent can, of course, fill you in on community details not so obvious at first glance:

- Where schools, supermarkets, libraries, hospitals, places of worship, fire and police stations are located.

- What zoning regulations apply.
- What community services are available.
- What construction plans are in the offing.
- What shifts in transportation facilities are occurring.
- Whether home values have appreciated or depreciated.
- What tax rates prevail

For a more intimate impression, you should walk around a neighborhood that looks attractive to you. Visit the schools your children will attend to confirm district boundaries and comparisons with other schools. Talk with people at bus stops (ask about commuting schedules and costs), in shops (chat about where the best stores are), in parks (get folks talking about recreational programs), in front yards (ask what they like and dislike about the neighborhood.) You might take instant photos as you tour different locales. They'll help you later when you want to keep different streets and homes separate in your mind. Also take notes to later compare, especially addresses and prices.

Inspecting a neighborhood is as necessary as inspecting the home you may buy. An old real estate maxim says, "The best time to think about selling your home is when you're buying it." That's because location will be a prime factor influencing future buyers when it comes time to sell your home.

What features make one home style different from another?

Style preference involves personal taste family needs and your budget. This section is designed to illustrate some of the most basic home styles. Space doesn't allow us to show the numerous variations and many other unique styles available in today's market.

Colonial (New England, Federal, Dutch, etc.): A good separation of space in these roomy, two story homes with center front or side entries; living room, dining room, kitchen on one floor; bedrooms upstairs. Privacy is possible but stair climbing is inevitable.

Ranch (also "rambler"): Typically, one story homes with bedrooms separated from living quarters and kitchen, often in wings, May or may not have a basement.

Country (also, "farm house"): Popular in both rural and suburban areas, this rustic one and one half or two story style features simple room arrangements, large kitchens front porches.

Cape Cod: Cozy living in one and a half story homes. Steep roof lines make slanted ceilings in upstairs rooms, which often have dormer windows. A good bet for handy buyers who can finish the upstairs by themselves, if needed.

Split level (also, "tri-level," "four level") Part of the home is two story, joined to a one story section by short flights of stairs, sometimes giving each room a floor of its own. Compact use of space and a good design for sloping property.

Victorian: Unexpected nooks and crannies in older homes; modern adaptations of Victorian design use space more conservatively. Special features: wide porches, sometimes turrets and gingerbread trim.

Contemporary: Out of the ordinary, often striking use of space in these homes that often feature dramatic shapes and unorthodox use of materials (concrete, diagonally slanted wood siding, glass, etc.)

Townhouse (also "Patio home," "row house"): Attached homes of similar style (Colonial, Spanish, contemporary, etc.) share common walls, offer two or three floors of living space comparable in size to detached homes. They feature small, easy to care for yards. *Some duplex townhouses look like single family homes, with the entry to one home at the center front, to the other home at the side.)

Condominium: Technically not a style, but a form of ownership. Condominiums can be townhouses, clustered units, low rise (up to four stories), high rise or even detached homes. You own both your private quarters and a share of common land and areas. A monthly condominium fee is charged to each owner for maintenance fees.

What should I specifically look for in a new home?

New home construction is changing all the time as builders try to adapt designs to today's lifestyles, make the most of living space, and incorporate new technology, building materials, and equipment, while keeping prices affordable. Buying a new home is attractive because everything's new, from floors to appliances. Energy efficiency (insulation, weather stripping, energy saving heating/cooling systems and electricity) is required by building codes. Buying a new home while it's under construction lets you choose paint, wallpapering, tiling, etc.

Newness itself is a virtual assurance that your maintenance costs will be predictable, and a builder's warranty (highly desirable) guarantees freedom from structural flaws.

Here are some of the signs of good construction to be checked out at the site:

- Good carpentry throughout (well fitted windows and moldings, non-squeeking wood floors, even wall surfaces).

- Solid structure with sturdy support.

- Basement floors and walls that have no cracks or damp spots.

- Insulation that measures as advertised.

- Everything in good working order (faucets, heating/cooling systems, electrical outlets, etc.

- A yard free of low, wet spots; grading that slopes away from the home for good drainage.

How do I evaluate a resale home?

Homes with a past have special appeal. An existing home is a settled place (literally): the foundation, the landscaping, the neighborhood, including its services, are about where they're probably going to be for some time.

The home has a lived in look. Some rooms may be larger than in new homes, woodwork has mellowed, the yard is a generous size. Its price may be lower (per square foot) and its financing possibilities more flexible than in new homes, especially if you can pick up an assumable mortgage

The thing to be on the look out for is wear and tear:

- How firm is the foundation?

- How sound are the sills, walls, floors and ceilings?

- What kind of plumbing was installed, when?

- What's the shape is the heating/cooling system in?

- What are monthly energy costs?

- How well does the insulation protect the indoors?

- What will it cost you to remodel if necessary (especially kitchen and baths) or to make necessary repairs?

If in doubt - or just for your peace of mind - you can hire a certified home inspector for a professional opinion.

What can I expect from a professional home inspection?

The job of a professional inspector is to look over every major part of a home, and write a report that judges the home's quality and condition.

A well qualified building inspector who has adhered to federal licensing standards can spot

problems that you might not be able to see or get to. However, it's wise for you to accompany the inspector so that you don't have to get the report secondhand.

Expect problems to be clearly explained, repair expenses closely calculated, maintenance costs estimated, and a written report delivered within a day or two. Remember you are buying a resale home; the price reflects the fact that nothing is new.

The territory covered by inspection included:

Exterior: the foundation (for holes, cracks), the gutters and down spouts (for gaps in joints, sagging), siding (for warp), paint (for peeling, blistering), windows and doors (for cracks, loose caulking), roof (for worn or bald spots), chimney (for tilting, loose bricks or stones), driveways, retaining walls and walks (for holes, sagging, cracks), grounds (for proper grading and healthy landscaping).

Interior: general structure (for soundness, rot), floors and stairs (for squeaking, shaking, bowing), plumbing system (for condition of pipes and fixtures, leaks, clogging), heating/cooling system(s) (for condition and capacity), electrical system (for age, condition, adequacy of voltage and outlets, proper grounding, signs of wear), insulation in walls, attic and basement (for thickness and efficiency), walls (for cracks, loose plaster, signs of leakage), kitchen (age and condition of appliances and plumbing).

What's the secret in making a good condominium buy?

Buying a condominium means, in most cases, buying amenities - neighborly lifestyle, sometimes complete with shopping, entertainment, playgrounds and/or sports facilities. Condominiums serve almost every possible kind of home buyer: singles, families with children, retired people. First time buyers are particularly drawn to condominiums because of the amount of space available at a reasonable price.

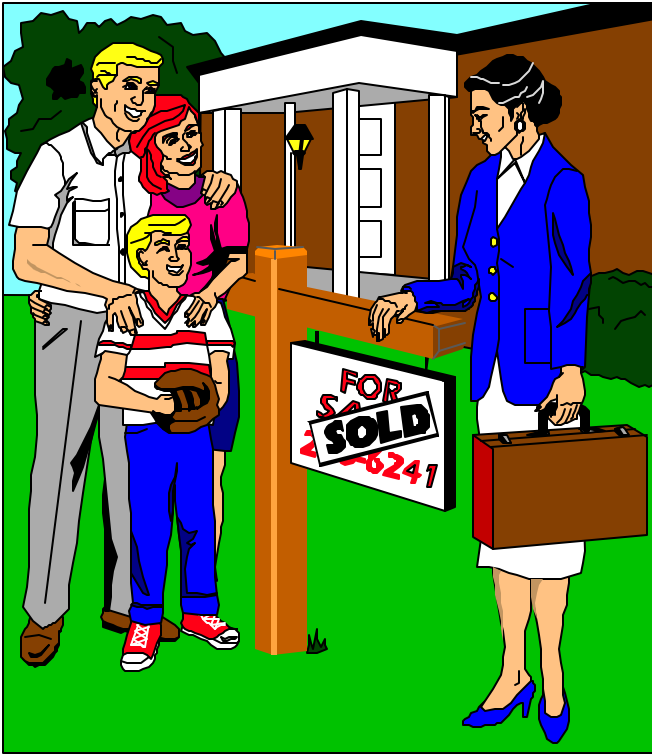
Each condominium association has its own rules, and as a member of your community you help govern what can be done to the outside of units, whether or not pets are welcome, what landscaping and community improvements are made, and what by laws are passed or amended. Because the owners' association can spend for amenities or limit spending to save expense, it is important for you to know if existing owners are in tune with your financial position by checking recent budgets. Shopping for a condominium means looking for the same things you look for in buying any home: a neighborhood on the upswing (for maximum enjoyment and for appreciation possibilities), good style and sound financing.

An agent knows the local condominium market and can assist you in evaluating the different communities, looking at sales contracts, maintenance charges and condominium management.

Planning table to Settlement Table

You've now zeroed in on the home that's ideal for you. You've threaded your way through the maze of home and neighborhood choices and established your own financial affordability. This is it. You're ready to step over the line from house hunter to home buyer and to make the actual purchase of a particular home. "Buying is what Chapter 3 is all about.

Buying



At this point you've narrowed your possible choices to one specific home. You're ready to make your first offer, negotiate with a seller, sign a contract, secure the best mortgage loan, and actually buy home. An agent knows the way, and with that experienced assistance you can navigate with confidence. Remember you and the seller want the same thing: a smooth and satisfactory transaction. With that understanding there's rarely an obstacle too big or too complicated to keep a qualified home buyer from the ultimate goal - home ownership.

What is in a sales contract?

Your signed offer to purchase is the document you draft which presents your price and terms to the seller. (The name of the document varies. Ask an agent what it is called in your area.) This purchase offer must be complete because when the seller signs it, the document becomes the binding “sales contract” which contains the conditions of the sale. If you forget something in the offer, you usually can’t add it to your sales contract later.

Terms and conditions of the contract vary depending on the situation. Following are typical matters you and a seller may negotiate and agree on:

- What items convey with the home, such as chandeliers, appliances, personal property swimming pool chemicals, etc.
- The sale price.
- The amount of your deposit (“earnest money”).
- The amount of your down payment and/or the amount of mortgage loan you intend to obtain.
- The date, time and place of settlement, when you take possession of the home. Be sure you and your seller have a clear agreement about the date of occupancy.
- Any contingencies (agreed upon by you and the seller) which must be met before settlement can take place, such as: improvements (painting, roofing, etc.); termite inspection; proof of clear title to the home; legal review of the contract by either or both buyer’s and seller’s lawyer(s); your ability to obtain a specified mortgage loan within a specified time at agreed upon interest rates and points, and/or specified seller financing.
- Your signature and that of the seller. (Remember you can always withdraw an offer *until* the seller has signed it.)

How do I make an offer on a home and negotiate with the seller?

You, as potential buyer, start the process by putting an offer with price and terms in writing and presenting it to the seller through an agent. Buying a home is probably the biggest financial investment you will make. Only you can decide which home you want, and the price is up to you and the seller.

Understand the seller has three basic options: to accept your offer, counter offer on specific details, or reject your offer. If there is any negotiation, it usually takes place trading counter offers, if the seller doesn’t immediately accept or reject the offer. Keep up the dialogue until you arrive at the price you can pay and the price and terms the seller can accept.

This is where an agent’s help is invaluable. The agent keeps the negotiation process running smoothly. With a knowledge of both you situation and the seller’s, plus a complete understanding of financing options, and agent can suggest strategies that bring about a satisfactory transaction.

How do I shop for a mortgage?

An agent can help you compare interest rates and terms to find out which mortgage plan is best for you and can refer you to lenders in the area.

However, each buyer's circumstances are unique, and once you've narrowed the field, you will want to discuss your case in detail with the lender. You'll determine, for instance:

- What terms are offered on adjustable rate loans; rate adjustment frequency, maximum limit on each rate change, frequency of monthly payment adjustment, ceiling on payment adjustments, possible extension of the length of time on the loan pay off, life of the loan interest rate cap, conversion privilege, positive or negative amortization, etc.

- What is the term (length of time) to repay a loan, and whether there is a prepayment penalty if you pay off your loan before its due date. In some areas pay off penalties are illegal, while in other areas common. Ask an agent for the local practice.

- What fees are involved (credit report, appraisal, survey, legal costs, "points", title insurance, etc.)

- Whether the lender can furnish you a second mortgage, if needed, at a pre-determined interest rate.

- How long it will take to process your application.

- What inspections the lender will require.

- What kinds of insurance and how much coverage you will be required to carry.

What information specifically will the lender ask for when I apply for my loan?

Lenders' loan application questions vary, but, in general, they will include:

- The kind and amount of mortgage loan you wish to obtain.
- The verifiable source of your down payment money (bank account statement, gift, etc.)
- The length of time you wish to borrow the money for.
- Your current address and the length of time you've lived there and at your previous address.

• Your employment history, your current employment and income, and your employer's name and address.

• Your Social Security number.

• Your assets, including your gross monthly income, your bank balances(s), your possessions (car, furnishings, jewelry, etc.).

• Your debts and account numbers (including car payments, credit cards, etc.).

• A copy of your sales contract.

What does the lender do to approve my loan?

Typically the lender will give or send you an application "package" with instructions and necessary forms. You complete these in detail, including the financial data and account numbers, and present them to your loan officer when ready. A loan application fee will be required by most lenders to cover credit report and appraisal.

A lender takes several steps in processing your application, and different procedures exist in different areas. Primarily, your lender is busy:

• Getting an appraisal of the home you want to buy, to determine if it's worth the price you are paying.

• Getting reports on your employment, income and debt paying ability, to determine if you are a good credit risk.

• Verifying bank deposits to satisfy down payment and closing cost needs.

• Ordering inspections, such as:

a) Housing or building code compliance

b) Completion of repairs the seller agreed to make.

c) Termites or other wood boring insects.

• Ordering the title search (sometimes by the lender's lawyer, your lawyer or a title insurance company), to determine if the seller can convey clear title to you.

• Verifying hazard insurance coverage, to make sure the home is protected against major losses.

Once all the documents are assembled, a review of your application by the lender's loan committee will determine whether or not your loan is approved. When your application is approved, your lender will send you a loan confirmation letter to put the loan amount, interest rate and monthly payment in writing.

How long does it take to get a mortgage approved, and can I do anything to speed up the process?

How long it may take before your loan is approved depends on what kind of loan you apply for, the efficiency of your lender, the lender's workload, and your own diligence in supplying required information.

Here again is where an agent's knowledge of what your lender needs and where the information comes from can help prod the process along - even to carrying papers from one place to another.

From experience we know the process works best when you rely on an agent, and lenders appreciate the agent as a single source to turn to for answers. An agent will keep tabs on the different sources of information and needed action: Has your bank supplied your account information? Have your credit card companies produced report? Will your insurance policy be guaranteed to be in effect by settlement day? Have your parents, relatives or friends provided the "gift letter" that must accompany cash donations? Has your employer verified your income, etc.?

What kind of homeowner's insurance should I carry?

Your lender requires you to carry a homeowner's insurance policy (also "Hazard Insurance"), protecting your home (and the lender's money) against such hazards as fire, smoke, wind, hail, explosion, riot, theft, glass breakage (if the glass is part of the home), and damage caused by aircraft, vehicles or vandalism. A basic policy also protects you against injury to a visitor on your property.

An "all risk" policy reimburses you for the major hazards plus damage due to lesser catastrophes such as burst water pipes. But, to insure all your equity and personal property, you may still need additional coverage.

A "guaranteed replacement cost" policy covers your home and contents for the full replacement value, rather than the actual cash value (the replacement cost minus depreciation).

Consider a policy with an "inflation guard" to adjust the amount of coverage based on the inflation rate.

What are “closing costs,” and how much should I expect to pay?

Depending on your area, the price of your home, your lender’s terms, and other factors, your closing costs will vary. An agent can provide a rule of thumb figure for your situation. Also, your lender will give you a pre-settlement “good faith” estimate of specific costs. This estimate is sometimes low. Take extra funds just in case.

Closing costs typically include:

- Loan origination fee, usually 1% off your mortgage amount.
- Discount point (or points); each point is 1% of your mortgage amount
- Assumption fee is you assume the seller’s loan.
- Cost of a title search
- Lender’s title insurance fee.
- Owner’s title insurance fee (optional but advisable).
- Survey fee (if applicable).
- Transfer tax (state and/or local tax and tax stamps in some areas; sometimes split with seller).
- Lender’s appraisal fee.
- Recording fees for settlement documents.
- Prepaid mortgage insurance premium.
- Homeowner’s hazard insurance premium.
- Property tax escrow’s.
- Lawyer’s or escrow company’s fee.

What happens at settlement?

In some areas, you and the agent meet with the sellers, their agent, and a settlement officer (either a lawyer or title company representative) and often attorneys representing the seller and/or you, to settle the transfer of the property and close the transaction. In other areas, an escrow officer does all the preparations for closing, and contacts the buyer and seller to come in individually and sign their respective documents.

In either case you will need to provide:

- Your homeowner's insurance policy, and paid receipt for one year's coverage, sometimes paid at closing.
- A certified or cashier's check (payable to yourself and ready to be endorsed to the seller, attorney or escrow company) for the balances of your down payment and your closing costs.
- Your regular check book so that you can pay any incidental costs. Typically all closing are calculated in advance and your certified check is usually sufficient.

You go over a list of adjustments presented on government standard "Settlement Statements," to settle what you and the seller owe one another in cash, taxes, etc. You sign the mortgage and mortgage note (denoting your monthly principal and interest payments). After recording all signed documents, you pay the seller, and the seller gives you the title (or deed).

Finally, you pick up your keys. The home is yours!

Congratulations!

Thank you for letting us share with you our experience and knowledge in the home buying process. After reading this handbook we encourage you to contact an agent and get even more answers to any specific questions you may have.

Now is an excellent time to buy. We're looking forward to helping you with what may be the most important investment of your life. Your call is welcome.

If you know someone who is planning to move soon, please pass along this handbook with our compliments. We would be glad to share with them our experience as much as we've enjoyed working with you. Again, thank you!

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