8 STEPS BEFORE BUYING A NEW HOME

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1. Should you hire a Real Estate Agent?

There's a reason why nearly 95% of sellers use a listing agent. Selling a home takes time, knowledge of neighborhood trends, and negotiating skills. The agent's chief tasks are to help set the right price and then get buyers in the door. Agents have access to the most up-to-date information about recent sales of comparable homes 'comps' and competing listings in your neighborhood. The market is shifting every day. It's the agent's job to keep up-to-date of those changes.

Reason #1: Time

Before skipping a full-service agent, think hard about the time and effort you want to spend, particularly if the process drags on. The average home takes about four months to sell (six in the slowest cities), according to National Association of Realtor statistics. If costs are a concern, you should feel comfortable having a frank up front conversation about how much the agent expects to be paid at closing.

Reason #2: Short-Term Contract

Once you've found an agent you feel comfortable with, sign a contract for the shortest possible period, 60 or 90 days. That should give you enough time to evaluate the agent's performance; besides, if the home is properly priced and properly marketed, you will be reaching your most serious buyers in the few weeks of listing.

Reason #3: Marketing

A goood agent will also market your home aggressively. That means recommending staging techniques to make the place look great, maximizing the listing with professional-quality photographs, and showing the house to prospective buyers. Most important, the agent will evaluate potential buyers so you can deal only with serious prospects.

Reason #4: Negotiation

Negotiating Is Tricky Business. If you are working with an agent, you can express your contempt for the current owner's decorating skills and rant about how much it'll cost you to upgrade the home without insulting the owner. For all you know, the owner's late mother may have lovingly chosen the décor. Your real estate agent can convey your concerns to the sellers' agent. Acting as a messenger, the agent may be in a better position to negotiate a discount without ruffling the homeowner's feathers.

The bottom line; while there are certain people who are qualified to sell their own homes, taking a quick look at the long list of frequently asked questions on most for sale by owner websites suggests the process isn't as simple as many people assume. And when you get into a difficult situation, it can really pay to have a professional on your side.

2. Get Your Financing in Order

To buy your first home; you likely will need a mortgage. In fact, before you even start looking at homes, you should look into your mortgage prospects.

- If you have good credit, a healthy income and money in the bank, you'll be able to secure mortgage pre-approval quickly and proceed straight to the home buying process. But if you have less-than-stellar credit, are self-employed or have little cash to bring to the table, you'll want to start the process way before you look at homes – maybe more than a year before.

- You should get a copy of your credit report. You have to know what is in there. The free credit report you can get annually, while it helps you identify problems, won't show you the same credit score your mortgage officer will see. The score is invariably higher than what you get when someone in the mortgage company runs it.

- That makes 2-3 meetings with a mortgage officer. The start of the process is crucial. In competitive markets, agents won't even show homes to buyers without mortgage pre-approval. Be prepared to produce documents, and lots of them, starting with several years of tax returns and many months of bank statements. Lenders will want proof of your income, and they will want to know about all your debts. They also will want to know the source of any big deposits. If your parents give you money for a down payment, they will need to write a letter documenting that.

- The other thing you'll need, besides documents, is money – and lots of it. You'll need money for your down payment, closing costs and more than a year's worth of taxes and insurance payments, for a start. Lenders will also want to see that you have adequate reserves in case you lose your job or major repairs become necesary.

- Financial experts disagree over how much money you need for a down payment. While 20 percent is often considered a rule of thumb, you can buy a house with as little as 3.5 percent down with a Federal Housing Administration mortgage (FHA), 5 percent with a conventional mortgage or nothing down with a VA loan available to military veterans.

- Pay off as much debt as you can first. This will help keep what's known as your 'debt-to-income' ratio down. Lenders look at your income and all your debt – student loans, car payments, and credit card debt – to determine how much you can afford to borrow. If your total debt, with the new house payment, would be more than 43 percent of your income, you're unlikely to get the loan. Some lenders may want a lower ratio

- The less you put down, the bigger your monthly payment will be. Plus, if your down payment is less than 20 percent of the purchase price, you'll have to pay private mortgage insurance or the FHA equivalent, known as mortgage insurance premium. You may get a lower interest rate with a higher down payment. The less you put down, the more expensive the mortgage insurance is and the higher the interest rate.

3. Understanding the Housing Market

Buying a house is exciting, intimidating and a bit complicated. If you are like most young home shoppers, you will spend close to three months just finding 'your' home. It is an emotional roller coaster. You might find what seems the perfect place, only to learn that is way over your target price. And that is in your budget 'fixer-upper' is more like a demolition zone.

- Things you can control, and things you cannot. You have heard the terms 'buyer's market' or 'seller's market'. If you are house hunting, you want to be on the right side of that equation — in a buyer's market. Prices are reasonable, there are lots of choices within your budget and financing is a breeze. The Goldilocks Zone. Do not wait for it. That is a rare combination of circumstances.

- It is more likely you will be house hunting in a 'hot market'. Imagine walking into an open house. It is a great home well within your budget, it is in your ideal neighborhood — and it is crammed with more than a dozen other couples, offers already on the table. This happens in a seller's market.

- One way to test the pulse of your market is to ask your agent for the local homes for sale inventory statistics. The National Association of Realtors publishes a monthly report detailing how many homes are for sale in the top 200 U.S. cities, how long they have been on the market and the median asking prices. This listing report allows you to compare your market to the national average and is ranked by volume of searches — a good clue as to the home buying interest in your area.

- You will also get insight about where prices are headed in your city, whether homes are selling quickly or the market is soft and just how tight inventory may be. Useful informations like median list price report is eye opener all by itself.

- An agent can provide you with a comparative market analysis (CMA) so you can feel comfortable that any offer you make is competitive and reasonable. These comparable neighborhood sales — ‘comps’ as they are called — show the value of similar houses in the area, either recently sold, currently listed or whose listings have expired. That can be extremely helpful in fine-tuning your budget and ultimately in making an initial offer.

Knowledge is power. Knowing your local housing market is a basic first step in getting a home you’ll love — and can afford — without overpaying or missing an opportunity. It is even more critical if you are moving to a new city and need help in learning the lay of the land. If you’ve done a little recon, you’ll be *almost* ready to get to some serious house hunting.

4. Understanding the Home Search Process

Experienced knowledge of a working Real Estate Professional is Golden. Being in the trenches of the local market enables Good Real Estate Agents to become an invaluable resource to their Sellers and Buyers. When choosing a community, there are a few things to think about:

- Are they looking to buy a single family home or a condominium?
- What part of town do they want to live in?
- How long will they commute to work?
- What are the schools like?
- What parks, places of worship, cultural centers, or shopping nearby?
- What amenities do they want in their new home?
- Have them drive by homes currently on the market to get a feel for the neighborhood.

6 House Hunting Mistakes to Avoid

1. **Not checking out the Neighborhood**

One of the most common mistakes in house hunting is not thoroughly investigating the neighborhood before buying. Do not just drive by the neighborhood; take a walk around. Ask people who live in the neighborhood how they like the area.

  - How well maintained are the nearby homes?
  - If you commute to work, is the home close to main routes?
  - How close are the schools, churches, and grocery stores?
  - Is the neighborhood pedestrian friendly?
  - What about zoning laws?
  - Will they allow industrial development near you?
  - When you visit the homes bring a checklist with neighborhood features that are most important to you.

2. **Do Not Get a Handyman Special if You Are Not a Handyman**

People often underestimate the time and money involved in making major house renovations or repairs. Home makeover programs on television can make major renovations seem effortless. Fixer upper homes are great options for people who enjoy spending weekends making renovations and have set aside sufficient funds for them. But homebuyers who do not have the time or money to make renovations may want to search for a home that is in move-in condition instead.

3. **Considering A Home You Can Barely Afford**

First time homebuyers often use their monthly rent payment as a way to figure out how much they can afford for a mortgage payment. They do not factor in other costs that come with homeownership such as taxes, maintenance, or insurance. You want your mortgage low enough to have money for savings, repairs, or even the unexpected loss of a job. Homebuyers should create a budget even before beginning their home search.

4. **Waiting Too Long to Make an Offer**

When you find a home that is in your price range and meets all of your criteria, do not wait too long to make an offer. In 2015 we saw more and more bidding war and seeing buyers get beat out on homes they wanted because they did’t act soon enough. The market is very hot right now. Mortgage rates and inventory levels are low, which is increasing the demand for good homes at a good price. So don’t wait or you could lose the home and have to start your search all over again.

5. **Not Hiring a Buyer's Agent**

Some home buyers believe it is better to work with the listing agent directly thinking they will get a better deal. But listing agents are contractually bound to act in the best interest of their seller, not you. A buyer's agent looks out for your best interests. They will show you homes that fit your specifications and steer you away from homes that do not. A buyer's agent will be familiar with local real estate market values and can negotiate a fair offer for the home. They can also help you navigate through all the legal paperwork involved in purchasing a home.

6. **Not Getting a Home Inspection**

Don't rely on the seller to let you know about problems with a home's structure. It is up to you to know everything about the home you're buying, which is why it is so important not to skip the home inspection. Have a full inspection of the home's plumbing, heating and cooling systems, electrical systems, foundation, and roof. This is a great way to avoid unexpected repair costs in the future.

ONCE YOU MAKE AN OFFER
on a house, you'll want a **licensed home inspector** to go over it with a magnifying glass.

5. How to Get the Best Financing

As a buyer securing financing for your purchase you will want to prepare a complete 2 year history for residency and income/employment. You must have a Social Security Number or the necessary valid visa and work authorization, verifiable credit, and the necessary assets to close and qualify.

Residency: Physical home address with any of the following

- 12 months proof of rent payments either cancelled checks, direct bank payments or management VOR (verification of rent).
- If living rent-free you will need a letter from the landlord, typically this is a family member.
- If you are currently an owner with a mortgage your credit report will almost always reflect your timely payment history. If you have had more than one 30-day late payment in the last 12 months, you better have a good reason.

Income and/or employment:

Borrowers need a minimum 2-year employment history as either a wage earner, or someone who is self-employed

> **Wage Earner Documents:** for *wage earner*; a minimum of the last 2 years' tax returns including all pages/schedules. BE sure to sign them even if you filed electronically as most Americans do as its now become industry standard. Most lenders to hedge risk and avoid being defrauded have adopted this practice.

Self Employed Documents: for *self-employed* a minimum of the last 2 years signed personal (IRS Form 1040) and/or business tax returns (IRS form 1120-C or more commonly 1120-S) including all pages/schedules.

- If a *sole proprietor* or someone filing a schedule C, then this will be part of your personal return and in most cases will not have a separate business tax return.
- If filing an 1120-S the k1 income will appear on personal returns and if there is 25% or more ownership of a business, then that business 1120-S will also be needed

Self-Employed individuals will need at least the most recent quarter end year-to-date profit and loss statement (P&L) and balance sheet. Lenders often require these to be signed by the businesses accountant.

Asset Based Income: Asset based income can come in the form asset dissipation. How this is actually calculated varies per lender but a safe rule of thumb is that for every $1,000,000 in checking or savings can be calculated as $3500 in comparable monthly income.

- Minimum 2 months of asset statements, all pages even if one is blank

Credit Qualifying Requirements: There are 2 types of credit when discussing mortgage lending, Traditional Credit and Non-Traditional Credit

Traditional Credit: This credit type consists of a minimum of 4 trade lines (installment, revolving accounts, mortgages, etc.), one of which has been open a minimum of 24 months, the other 3 for at least 12 months. All do not have to be open presently.

Non-Traditional Credit: This credit type is when the above requirements are not met OR there is no score due to a lack of credit or long-term credit inactivity. In this case credit must be built. Additionally, the loan underwriting will be done manually.

Credit score minimum requirements for Government Loans as low as 580 while conventional financing typically requires at least a 620. Note; it will be very difficult to *qualify and will likely require strong compensating factors if your middle scores are this low.*

Derogatory Credit: Borrowers can still qualify for a traditional mortgage even if they have had a bankruptcy, foreclosure, or short sale. Time frames depend on the lender and mortgage type.

Citizenship/US Residency: All borrowers need a social security number to get traditional financing. That said they don't need to be a US citizen. Both permanent resident aliens and non-permanent resident aliens can qualify the same as a US citizen.

Permanent Residents: need a copy of the front and back of both their SS card and Perm-res Alien Card.

Non-Perm Resident Aliens: need a copy of their valid visa, and work authorization.

6. Five Ways to Make Your Offer Stand Out

1. ***Get the seller to like you***

Letting the seller know why you want to live in the property they once called home improves your chances of winning a bid.

I told my clients to write a letter to the sellers and mention that they wanted to be close to the grandchildren and that their home was so beautiful, so spacious and close to the grandkids school. At the time, we didn't know the sellers too, were moving to be near their own grandchildren. My client's letter and offer were submitted in the afternoon and accepted within hours. The sellers had at least three other offers to choose from.

I think the old-fashioned letter is one of the most useful tools for buyers these days. I always tell my clients: Do the letter. If the sellers live there, they love the house, and they are more inclined to sell it to someone they have more in common with. It is the human factor.

If you are not sure what to write the seller, just speak from the heart. Let them know how important the house is to you, how special it is. Let them know you are going to take good care of it.

2. Quick inspections and no repairs needed

When you have competition, don't ask the seller to give you 15 days to inspect the home. You don't need more than five days to get an inspector there. Some buyers will go as far as doing the inspection right away, before submitting the contract, so that the offer is not contingent on inspection. But that could mean throwing money out the window if the offer isn't accepted.

One way to make the offer more attractive, while ensuring that you have enough time to get a proper inspection done, is to have an "as is" inspection contingency. An “as is” inspection contingency lets the client find out the condition of the property and lets the seller know that the buyer will not ask for any repairs. If the inspector finds any issues in the house, the buyer will have the choice to take the home as is or walk.

3. *Contingent vs. non-contingent offers*

Home purchase contracts normally are contingent on financing and appraisal, giving homebuyers the right to get their deposits back if they can't finance the home or the appraisal doesn't support the purchase price.

For homebuyers who are getting a mortgage, waiving one or both contingencies can improve their chances when competing with cash buyers. But it's risky. An offer that is not contingent on financing is basically a cash offer. It’s not recommended unless the buyer can afford it.

As for appraisal contingencies, many listings these days require offers to be non-contingent on appraisal. That means if the house doesn't appraise for the purchase price, the buyer has to pay the difference in cash because the lender will only finance based on the appraised value.

This is not a good strategy for buyers who have small down payments and are low on cash. It is for those who can afford the gamble and are determined to get the house, even if that means overpaying. This would certainly make the offer stand out from the rest.

4. *Escalate your offer*

Many buyers think they can save their highest and best offer for the end, when the seller presents a counteroffer. But sellers can simply accept the highest offer and reject the other offers without further negotiations. One way to get your offer to stay in the game is to add an escalation clause to your offer.

The Buyer places an offer, and the offer is X, but there's a clause in there that says the buyer will increase the offer by a Y amount over any other bid up to a certain point. For example, I'll go in and offer full price with an escalation element of $2,000 up to whatever amount you determine.

It is a safer way of making the offer stand out by letting the seller know the buyer willing to pay more for the house, without the risk of offering more than what is needed to get a contract. If the escalation clause is triggered, the sellers generally are required to show the other offers to the buyer.

5. *Get preapproved for a conventional loan*

Don't bother submitting an offer on a house without a loan preapproval in hand. And if you really want to please the seller, get preapproved for a conventional loan.

A **preapproval letter** demonstrates that the lender has verified your income and other required documents. **It is not a prequalification letter**, which simply states that based on the information provided; you could qualify for a loan.

Although it’s not always the case, some sellers prefer buyers who are preapproved for a conventional mortgage instead of a Federal Housing Administration loan. There's a stigma with FHA and other government loans. Loans insured by the FHA are not much more complicated or time-consuming than conventional loans.Some sellers don't like FHA loans, but I've never really understood why, I think they feel more confident with a buyer who has a larger down payment.

In the end, the seller will get a check, regardless of the type of loan. But since the point is to convince the seller that your offer is the best one, if you qualify for a conventional loan, go for it.

7. **Understanding The Proper Insurance**

When Buying a Home, Put Insurance on the Top of Your ‘To-Do’ List. When you are buying insurance on a new home you want to know and have a better understanding of the factors that affect your ability to get and keep affordable homeowners insurance.

Most lenders will not provide a mortgage without homeowner’s insurance coverage, so work with your insurance company or agent, together with your Realtor, to help you move into and protect your dream home.

When you insure your home, you are really insuring two distinct things:

1. The structure of your home
2. Your personal belongings

The Structure of Your Home

Three ways to insure the structure of your home:

1. **Replacement Cost.** Insurance that pays the policyholder the cost of replacing the damaged property without deduction for depreciation, but limited to a maximum dollar amount.
2. **Extended Replacement Cost.** An extended replacement cost policy, one that covers costs up to a certain percentage over the limit (usually 20%). This gives you protection against such things as a sudden increase in construction costs.
3. **Actual Cash Value.** This covers the cost to replace your home minus depreciation costs for age and use. For example, if the life expectancy of your roof is 20 years and your roof is 15 years old, the cost to replace it in today's marketplace is going to be much higher than its actual cash value.
4.

Your Personal Belongings

Two ways to insure your personal belongings:

1. **Replacement Cost Coverage.** Insurance that pays the dollar amount needed to replace damaged personal property with items of like kind or quality without deduction for depreciation.
2. **Actual Cash Value.** Insurance under which the policyholder receives an amount equal to the replacement value of damaged property minus depreciation. Unless a homeowner's policy specifies that property be covered for its replacement value, the coverage is for actual cash value.

Know what your homeowners insurance covers.

- It typically covers damage from fire, windstorm, hail, water damage (excluding flooding), riots, explosion, as well as other sudden and unexpected losses, i.e. theft, and the extra cost of living elsewhere while your home is repaired or rebuilt.
- It covers your legal liability (up to policy limits) if you, members of your family or even your pets hurt other people or their property, not just your house, but away from it, too.
- **Do annual insurance policy "checkups" to keep up with local building costs, home remodeling and inventories of personal belongings.** Make sure that you have updated insurance to rebuild or repair your home for what it would cost in the current building market. Accurate inventories of personal possessions make for faster and smoother claims' settlements. Photos and videos offer easy ways to document your belongings.

Key Consumer Tip:
Understand what is and isn't covered by your homeowner's insurance policy to ensure that you are able to rebuild your home and replace your personal belongings.

8. The Closing Process

On closing day, all parties will sign the papers officially sealing the deal, and ownership of the property will be transferred to you. It is your opportunity to make any last-minute changes to the transaction.

It starts the day before

The day before: gather all the paperwork you have received throughout the home buying process: Loan Estimate, contract, proof of title search and insurance if necessary, flood certification, proof of homeowners insurance and mortgage insurance, home appraisal, inspection reports and Closing Disclosure. You might need to refer to these documents at closing.

Most home-sale contracts entitle you to a walk-through inspection of the property 24 hours before closing. This is to ensure that the seller has vacated the property and left it in the condition specified in the sales contract.

If there are any major problems, you can ask to delay the closing or request that the seller deposit money into an escrow account to cover the necessary repairs.

Your roles on closing day

At closing, your participation will involve a couple of steps:

- Sign legal documents. This falls into 2 categories: the agreement between you and your lender regarding the terms and conditions of the mortgage and the agreement between you and the seller transferring ownership of the property. Be sure to read all documents carefully before signing them, and do not sign forms with blank lines or spaces.
- Pay closing costs and escrow items. Borrowers handle the numerous fees associated with obtaining a mortgage and transferring property ownership in 1 of 2 ways: They either roll them into the principal balance of the new loan or agree to pay higher interest rates and have their lenders foot the bill. Some buyers may have to pay these out-of-pocket fees.

Present at closing

Closing procedures vary from state to state and even county to county, but the following parties will generally be present at the closing or settlement meeting:

- Closing agent, who might work for the lender or the title company.
- Attorney: The closing agent might be an attorney representing you or the lender. Both sides may have attorneys. It's always a good idea to have an attorney present that represents you and only you.
- Title company representative, who provides written evidence of the ownership of the property.
- Home seller.
- Seller's real estate agent.
- You, also known as the mortgagor.
- Lender, also known as the mortgagee.

The closing agent conducts the settlement meeting and makes sure that all documents are signed and recorded and that closing fees and escrow payments are paid and properly distributed.

Closing documents

You will receive the following important documents:

Closing Disclosure	This 5-page document provides details of the mortgage loan, including the loan terms, estimated monthly payments and closing costs. You are not supposed to receive this for the 1st time at the closing table; the lender is required to give it to you at least 3 business days before you close on the loan. During this period, you are encouraged to compare the Loan Estimate with the Closing Disclosure.
Mortgage note	This document states your promise to repay the mortgage. It indicates the amount and terms of the loan and what the lender can do if you fail to make payments.
Mortgage or deed of trust	This document secures the note and gives your lender a claim against the home if you fail to live up to the terms of the mortgage note.
Certificate of occupancy	If you are buying a newly constructed house, you need this legal document to move in.

Once you've reviewed and signed all closing documents, the house keys are yours and you will have successfully bought your new home!