Where Home Begins

STEPS TO THE HOME BUYING PROCESS


Rachael Boling Photography • Linda McDougald Design | Postcard from Paris Home

Presented To **Future Home Owner**

From **Sue Olson**

Date **Fall / Winter 2016**

Introduction

KEYS TO SMART HOME BUYING

Buying a home is one of life's most important investments and exciting adventures. As your Coldwell Banker Residential Brokerage Independent Sales Associate, I will guide you every step of the way by:

- Helping you get pre-approved and establishing your purchasing power
- Helping you determine your home preferences
- Helping you determine your offer
- Negotiating the offer and contract
- Facilitating the financing process
- Initiating the property evaluation and inspection process
- Explaining the title search process
- Preparing you for the close of escrow and associated costs

The Importance of Getting Pre-Approved


Rachael Boling Photography • Linda McDougald Design | Postcard from Paris Home

In today's real estate market, it's essential to get pre-approved before starting your home search as it allows you to:

- Understand your financial condition
- Understand how much home you can afford before you begin your home search
- Strengthen your purchasing power when making your offer

Princeton Capital, Coldwell Banker's mortgage affiliate—and a full-service mortgage company with a proven and trusted track record—can help you determine your purchasing power before your home search gets underway. The company will show you a variety of financing types (FHA, conventional, jumbo, super jumbo, etc.) and will determine how much you qualify for with each type. Based on your desired payment level and the funds you have available, Princeton Capital can determine your purchasing power and design a loan that will work for you.

The Power of Being Pre-Approved

- Getting pre-approved helps put you in a better negotiating position by letting the seller know you are committed and the financing is not in question
- In cases where there are multiple offers for homes, buyers who are pre-approved have a better chance of an accepted offer on the house they wish to buy—versus those buyers who are not pre-approved


Rachael Boling Photography • Linda McDougald Design | Postcard from Paris Home

Beginning the Pre-Approval Process

Here are some of the current documents you'll need to provide your lender to get your pre-approval started:

INCOME
- Current pay stubs, usually for last two months
- W-2s or 1099s, usually for last two years
- Tax returns, usually for last two years

ASSETS
- Bank statements
- Investments/brokerage firm statements
- Net worth of businesses owned (if applicable)

DEBTS
- Credit card statements
- Loan statements
- Alimony/child support payments (if applicable)

Rachael Boling Photography • Linda McDougald Design | Postcard from Paris Home

Determining Your Home Preferences

Please take a moment to complete this Home Preferences Worksheet. The more I know about your preferences, needs and priorities, the better I will be able to focus our search on properties that most closely match your criteria.

Remember, unless you are building your dream home from the ground up, there are often compromises involved in deciding whether or not you will be satisfied with a given property.

HOME PREFERENCES WORKSHEET

1 | No importance
2 | Minimal importance
3 | Somewhat important
4 | Very important
5 | Must have

Feature	Preference	Importance (1-5)
# of bedrooms		
# of bathrooms		
Family room		
Dining room		
Formal living room		
Kitchen		
Floor plan style (i.e. single level, two-story, etc.)		
Square footage		
Views		
Architectural style (i.e. ranch, contemporary, traditional, modern, rustic, etc.)		
Swimming pool and/or spa		
Garage		
Deck/patio		
Yard/garden		
Condition (new, fixer upper, etc.)		
Location		
Close to employment		
Schools/daycare		
Proximity to police		
Recreational facilities		
Public transportation		
Freeway access		
Shopping/dining		

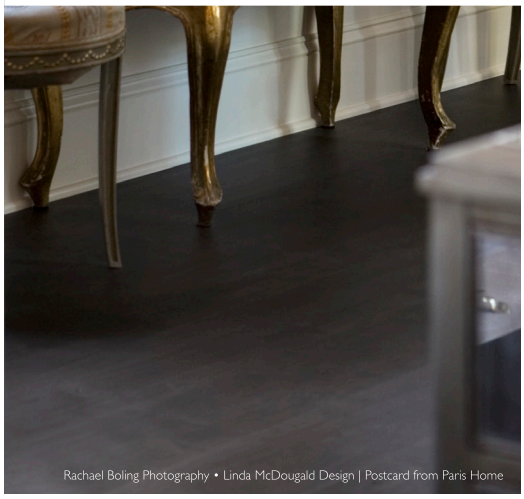
Determining Your Offer

Many factors influence the asking price of a home. To help you decide how much you feel comfortable offering for a property, I will gather critical information for you regarding the factors that impact how much you should consider paying for the home, including:

- How long the home has been on the market
- If the price has been reduced
- The prices for other comparable homes in the area
- If there are multiple offers
- Other items that might be included in the sale - furniture, hot tub, etc.
- The "list to sale price ratio," an indication of how competitive the market is for homes in this area
- Why the seller is selling
- Whether the seller is offering an assumable loan or financing

Negotiating the Offer and Contract

You may make your offer subject to certain terms or contingencies, including securing of financing or perhaps the sale of your current home. You may also make the contract subject to various inspections by both you and professional inspectors. Most contracts include some standard provisions, such as property taxes, insurance costs, utility bills and special assessments that will be prorated between buyer and seller. Others outline what happens if the property is damaged before closing, or if either party fails to go through with the sale. I will review every aspect of your offer and contract with you. Together, we will plan a strategy for getting the most advantageous terms for you, the buyer, at the price you are willing to pay for the property.



Rachael Boling Photography • Linda McDougald Design | Postcard from Paris Home

Navigating the Financing Process

Once your offer is accepted, the financing process continues—and already being pre-approved makes this process go much quicker and smoother. While it can take anywhere from 30 to 60 days, it typically runs 45 days. I'll be involved throughout the process to help it run smoothly. The basic timeline for what will happen along the way is as follows:

- You submit the completed application and any required supporting documentation to the lender (when you are pre-approved, this is already done)
- The lender orders an appraisal of the property, a credit report and begins verifying your employment and assets
- The lender provides a good faith estimate of closing and related costs, plus initial Truth in Lending disclosures
- The lender evaluates the loan package with all of your supporting documents, issues a letter of commitment, loan approval and list of conditions, if any
- You sign the closing loan documents and the loan is funded
- The lender sends its funds to escrow
- All appropriate documents are recorded at the County Recorder's Office, the seller is paid and the title to the home is yours

Property Inspections

Real estate contracts often contain contingency clauses that allow buyers to inspect the property. Certain inspections are required by lenders and others are a matter of observation and what is particular to a region or area. Which party pays for these inspections is negotiable. The two most common types of inspections are:

WOOD DESTROYING PEST AND ORGANISMS (TERMITE) INSPECTION

This inspection identifies existing or potential pest, dry rot, fungus and other structure-threatening infestation or conditions. The initial inspection fee covers only those areas which are accessible to the inspector. Inspections of inaccessible areas cost more and are subject to an estimate by the inspector. These inspectors must be licensed and can give estimates to correct noted problems, can make the suggested repairs and/or can certify that the work has been completed.

GENERAL HOUSE INSPECTION

This inspection identifies material defects in the essential components of the property based upon a noninvasive physical inspection. There are no licensing requirements for someone to be a home inspector. These inspectors are not allowed to give estimates to correct noted problems, nor can the inspector perform any of the repairs.

The Title Search Process

A title spells out who has the right of ownership for a property. It is considered “clear” if there are no claims or liens against it. In order to make sure nothing will prevent transfer of the property to you, a title company will conduct a title search and prepare a preliminary report that indicates what recorded matters affect the title to the property and if the title insurance company is willing to insure the title. At the close of escrow, the title company will issue an Owner’s Policy of Title Insurance to protect you against losses that might arise from covered claims on the title.

Preparing for the Closing Costs

A home purchase is a complex transaction involving many parties and associated fees. In addition to your deposit and down payment, there are a variety of other costs involved in the close of escrow, including:

- Loan origination fees, appraisals and reports
- Surveys and inspections
- Mortgage insurance
- Hazard insurance
- Taxes
- Assessments
- Title Insurance, notary and escrow fees
- Recording fees and stamps

The lender will provide a good faith estimate of these costs prior to the close of escrow, so that you will know in advance what to expect. Some of these costs may be negotiable items with the seller. Naturally, I’ll walk you through each item in your closing to make sure you understand every detail.

Glossary

Understanding the terms used throughout a real estate transaction can almost seem like learning a whole new language. We've created this handy glossary to help you master the vocabulary of real estate.

Adjustable Rate Mortgage (ARM): A mortgage with an interest rate that changes over time in line with movements in a financial index. ARMs can also be referred to as AMLs (adjustable mortgage loans) or VRMs (variable rate mortgages).

Adjustment Period: The length of time between interest rate changes on an ARM. For example, a loan with an adjustment period of one year is called a one-year ARM, meaning that the interest rate can change once a year.

Amortization: Repayment of a loan in installments of principal and interest, rather than interest-only payments.

Appraisal: An estimate of the property's value.

Assessed Value: The value placed on a property for purposes of taxation.

Assumption of Mortgage: A buyer's agreement to assume the liability under an existing note that is secured by a mortgage or deed of trust. The lender must approve the buyer in order to release the original borrower (typically the seller) from liability.

Balloon Payment: A lump sum principal payment due at the end of some mortgages or other long-term loans.

Buydown: A permanent buydown is pre-paid interest that brings the note rate on the loan down to a lower, permanent rate. A temporary buydown is pre-paid interest that lowers the note rate temporarily on the loan, allowing the buyer to more readily qualify and increase payments as income grows.

Cap: The limit on how much an interest rate or monthly payment can change, either at each adjustment or over the life of a mortgage.

Cash Reserves: The amount of the buyer's liquid cash remaining after making the down payment and paying all closing costs.

CC&Rs or Covenants, Conditions and Restrictions: A recorded document that controls the use, requirements and restrictions of a property.

Commission: An amount paid by the seller to the listing and selling Agent for handling the real estate transaction.

Commitment Period: The period of time during which a loan approval is valid.

Condominium: A form of real estate ownership in which the owner receives exclusive title to a particular unit and shares ownership in certain common areas with other unit owners. The unit itself is generally a separately owned space whose interior surface (walls, floors and ceiling) serve as its boundaries.

Contingency: A condition that must be satisfied before a contract is binding. For example, a sales agreement or offer may be contingent upon the buyer obtaining financing.

Conversion Clause: A provision in some ARMs that enables home buyers to change an ARM to a fixed rate mortgage, usually after the first adjustment period. The new fixed rate is generally set at the prevailing interest rate for fixed rate mortgages. This conversion feature may involve an extra charge.

Cooperative: A form of multiple ownership in which a corporation or business trust entity holds title to a property and grants occupancy rights to shareholders by means of proprietary leases or similar arrangements.

Glossary

CRB or Certified Residential Broker: To be certified, a broker must be a member of the National Association of Realtors®, have five years of experience as a licensed broker and have completed required Residential Division courses.

Debt Ratios: The comparison of a buyer's housing costs to his or her gross or net effective income and the comparison of a buyer's total long-term debt to his or her gross or net effective income. The first ratio is the housing ratio and the second is the total debt ratio.

Deed: A document which, when properly executed and delivered, conveys title of real property.

Disclosure: To make known or public. By law, a seller of real property must disclose facts which affect the value or desirability of the property.

Discount Points: A negotiable fee paid to the lender to secure financing to the buyer. Discount points are interest charges paid up-front to reduce the interest rate on the loan over the life or a portion of the term.

Due-on-Sale Clause: A clause that requires a full payment of a mortgage or deed of trust when the secured property changes ownership.

Earnest Money: The portion of the down payment delivered to the seller or escrow Agent by the purchaser with a written offer as evidence of good faith.

Easement: A right to use all or part of the land owned by another for a specific purpose. For example, an easement may entitle the holder to install and maintain sewer or utility lines.

Encumbrance: Anything that affects or limits the ownership of real property, such as mortgages, liens, easements or restrictions of any kind.

Escrow: A procedure in which a third party acts as a stakeholder for both the buyer and the seller, carrying out both parties' instructions and assuming responsibility for handling all of the paperwork and distribution of funds. An escrow fee, typically paid by the buyer, is charged by the title company to service the transaction and to escrow money and documents.

Equity: The difference between what is owed and the amount for which the property could be sold.

FHA Loan: A loan insured by the Federal Housing Administration (of the Department of Housing and Urban Development).

Federal Home Loan Mortgage Corporation (FHLMC): Often referred to as "Freddie Mac," they purchase loans from savings and loan lenders within the Federal Home Loan Bank Board.

Federal National Mortgage Association (FNMA): Popularly known as "Fannie Mae," they purchase and sell residential mortgages insured by FHA or guaranteed by the VA, as well as conventional home mortgages.

Fee Simple: An estate in which the owner has unrestricted power to dispose of the property as he or she wishes, including leaving by will or inheritance.

Fixed Rate Mortgage: A conventional loan with the same interest rate for the life of the loan.

Fixtures: Personal property that is attached to real property and is legally treated as real property while it is attached – such as light fixtures, window treatments and medicine cabinets.

Foreclosure: The legal process in which mortgaged property is sold to pay the loan of the defaulting borrower.

Glossary

Fully Indexed Rate: The maximum interest rate on an ARM that can be reached at the first adjustment.

Gift Letter: A letter from a relative stating that an amount will be gifted to the buyer and that said amount is not to be repaid.

Government National Mortgage Association (GNMA): Known as "Ginnie Mae," a governmental part of the secondary market that deals primarily with recycling VA and FHA mortgages, particularly those that are highly leveraged.

Graduated Payment Mortgage: A residential mortgage with monthly payments that start at a low level and increase at a predetermined rate.

Home Warranty Plan: Protection against failure of mechanical systems within the property and usually includes plumbing, electrical, heating and cooling systems and installed appliances.

Index: A measure of interest rate changes used to determine changes in an ARM's interest rate over the term of the loan.

Initial Interest Rate: The introductory interest rate on a loan, which signals that there may be rate adjustments later in the loan.

Joint Tenancy: An equal, undivided ownership of property by two or more persons. Upon the death of any owner, the survivors take the decedent's interest in the property.

Jumbo Loans: Mortgage loans that exceed the loan amounts acceptable for sale in the secondary market. Jumbos are packaged and sold differently to investors and have separate underwriting guidelines.

Lien: A legal hold or claim on a property as security for a debt or charge.

List-to-Sale Ratio: The ratio between the price at what a property is listed and the amount for which it is actually sold.

Loan Commitment: A written promise to make a loan for a specified amount on specified terms.

Loan-to-Value Ratio: The relationship between the amount of the mortgage and the appraised value of the property, typically expressed as a percentage of the appraised value.

Lock-in: The fixing of an interest rate or points at a certain level, usually during the loan application process. It is typically fixed for a specified amount of time, such as 20 to 30 days or some other period of time determined by the lender.

Margin: The number of percentage points the lender adds to the index rate to calculate the ARM interest rate at each adjustment.

Mortgage (Deed of Trust): A legal document that provides security for repayment of a promissory note.

Mortgage Insurance Premium (MIP): The mortgage insurance required on FHA loans for the life of said loan. The MIP is either paid in cash at the time of closing or financed over the course of the loan.

Multiple Listing Service: The pooling in a central bureau of all properties for sale. The listings are held individually by members of a group of real estate Brokers, with the agreement that any member of the group may sell the properties and the commission will be divided between the Broker that sold the property and the Broker who filed the listing.

Negative Amortization: Occurs when monthly payments fail to cover the cost of the interest on a loan. The interest that is not covered is added to the unpaid principal balance, meaning that even after making several payments the borrower could owe more than at the beginning

Glossary

of the loan. Negative amortization may occur when an ARM has a payment cap that results in monthly payments that are not high enough to cover the interest.

Origination Fee: A fee or charge for work involved in evaluating, preparing and submitting a proposed mortgage loan. The fee is limited to 1% for FHA and VA loans.

PITI: The term for a mortgage payment that includes principal (P), interest (I), taxes (T) and insurance (I).

Planned Unit Development (PUD): A zoning designation for property developed at the same or slightly greater overall density than conventional development, often with improvements clustered between open or common areas. Use may be residential, commercial or industrial.

Point: An amount equal to 1% of the principal amount of the investment or note.

Pre-approval: When a borrower has completed a loan application and provided debt, income and savings documentation which an underwriter has reviewed and approved. A pre-approval is usually done at a certain loan amount and making assumptions about what the interest rate will actually be at the time the loan is made, as well as estimates for the amount that will be paid for property taxes, insurance and others.

Prepayment Penalty or Clause: A fee charged to a borrower who pays a loan in full before the stated due date.

Private Mortgage Insurance (PMI): Insurance written by private companies to protect the lender against loss if the borrower defaults on the mortgage. PMI is often required on mortgage loans in which less than 20% has been put forth for the down payment. Depending on the conditions of the mortgage, the borrower may request cancellation of PMI when equity in the property reaches 20%.

Purchase Agreement: A written document in which the purchaser agrees to buy a certain real estate and the seller agrees to sell under stated terms and conditions. Also called a sales contract, earnest money contract or agreement for sale.

Rate Gap: The difference between the current rate and the rate to which it could adjust on an ARM.

Realtor: A real estate Broker or Sales Associate active in a local real estate board affiliated with the National Association of Realtors.

Recording Fee: Charged by the County Clerk to record documents in the public records.

Refinance: A new loan with new terms, interest rates and monthly payments that completely replaces your current mortgage.

Regulation Z: The set of rules governing consumer lending issued by the Federal Reserve Board of Governors in accordance with the Consumer Protection Act.

Short Sale: The sale of a home for less than the balance remaining on the homeowner's mortgage.

Tenancy in Common: A type of joint ownership of property by two or more persons with no right of survivorship.

Title: The rights of ownership recognized and protected by law. It is a combination of all elements that constitute the highest legal right to own, possess, use, control, enjoy, transfer and dispose of real estate.