

# How We Help You Buy Your Home

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**HELPING YOU FIND AND PURCHASE THE PERFECT HOME IS ONLY ONE FACET OF OUR JOB.**

## **IN ADDITIONAL, WE WILL:**

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- EXPLAIN REAL ESTATE PRINCIPLES, CONTRACTS AND DOCUMENTS
- REFER YOU TO A REPUTABLE LENDER THAT CAN HELP YOU ASSESS YOUR FINANCIAL SITUATION AND PRE-APPROVE YOU FOR A LOAN
- HELP YOU DETERMINE THE TYPES OF HOMES AND NEIGHBORHOODS THAT MOST FIT YOUR NEEDS
- ARRANGE TOURS OF HOMES THAT MEET YOUR CRITERIA
- PROVIDE YOU WITH DETAILED INFORMATION ABOUT HOMES YOU'RE INTERESTED IN
- DETERMINE THE MARKET VALUE OF HOMES YOU'RE INTERESTED IN
- ASSIST YOU IN WRITING AND NEGOTIATING A MUTUALLY-ACCEPTED PURCHASE AND SALE AGREEMENT
- ACCOMPANY YOU TO THE INSPECTION
- COORDINATE NECESSARY STEPS AFTER INSPECTION
- WORK WITH THE ESCROW COMPANY TO ENSURE ALL NEEDED DOCUMENTS ARE IN ORDER AND COMPLETED IN A TIMELY MANNER

# Pre-Approval Process

Determining how much you can afford before you begin your home search will save you valuable time. We can help you locate a lender who will assist you in finding a financing package that will best meet your needs. But there are a few steps you should consider beforehand to make the process as smooth as possible:

## THOU SHALT NOT...

- CHANGE JOBS, BECOME SELF-EMPLOYED, OR QUIT YOUR JOB
- BUY A CAR, TRUCK, MOTORCYCLE OR VAN
- USE CREDIT CARDS EXCESSIVELY (MORE THAN NORMAL)
- STOP PAYING BILLS
- SPEND MONEY YOU HAVE SET ASIDE FOR CLOSING
- OMIT DEBTS OR LIABILITIES FROM YOUR LOAN APPLICATION
- BUY FURNITURE
- ORIGINATE ANY INQUIRIES INTO YOUR CREDIT (APPLY FOR NEW CCS, ETC.)
- MAKE LARGE OR CASH DEPOSITS WITHOUT CHECKING WITH YOUR LOAN OFFICER
- CHANGE BANK ACCOUNTS
- CO-SIGN A LOAN FOR ANYONE
- CHANGE MARITAL STATUS

Each of these will jeopardize you receiving your mortgage. If unsure, call your loan officer and ask before doing any of the above before closing.

## Credit Report

It's important to check your credit report before you see your lender because:

- Lenders check this to determine the amount of loan you qualify for
- It allows you to correct any mistakes in the report before lenders see it
- If there are any blemishes in your report that are not errors, you should be prepared to explain them to your lender

You are entitled to one free request each year from each of the three credit bureaus. The best way to do this is to go online to [AnnualCreditReport.com](http://AnnualCreditReport.com).

## CREDIT SCORE

You may want to check your credit score at the same time you check your credit report (usually for a fee). This score influences how much lenders are willing to loan to you and at what interest rate.

## Down Payment

Most lenders will give better financing terms to borrowers that can put a 20 percent down payment on the purchase. If you are unable to do so, you will likely be required to purchase Private Mortgage Insurance (PMI) and perhaps pay a higher interest rate.

## Pre-Approval

A letter of pre approval from a lender shows that they have checked all your documentation and are prepared to make you a loan. Getting pre approved prior to starting your home search saves you time by:

- Keeping you focused on viewing only the homes that are within your budget
- Helping you obtain your financing more quickly once you find a house you want to buy

# Frequently Asked Questions

## HOW DOES MY OFFER GET PRESENTED TO THE SELLER?

In today's electronic world, offers are sent via email to the seller's agent. We will call the agent to let them know it's coming and tell them a little bit about you and the details of your offer. Then we will follow up with the agent again to confirm receipt of your offer.

## DOES IT COST ME MONEY TO MAKE AN OFFER?

When you write the offer on the home you've chosen, you will be expected to include an earnest money deposit. The deposit is a sign of your good faith that you are seriously interested in buying the home.

## WHERE DOES MY EARNEST MONEY GO?

Once the buyer and seller have a mutually accepted offer, the earnest money is deposited into escrow. That deposit becomes a credit to the buyer and becomes part of the purchase expense.

## IS THAT ALL THE MONEY THAT'S INVOLVED?

Some lenders require the cost of the appraisal and credit report at the time of the loan application.

## CAN I LOSE MY EARNEST MONEY?

Real estate contracts are complicated legal transactions. This is another area where having a knowledgeable and professional agent is a necessity. Rarely does the buyer lose the earnest money. Most often, if the transaction falls apart, there are circumstances beyond the buyer's control that cause it to happen. If the buyer willfully decides, however, that they no longer want to buy the house and has no legal reason for rescinding their offer, then the seller has the right to retain the earnest money.

## WHAT HAPPENS IF I OFFER LESS THAN THE ASKING PRICE?

If you offer less money, the seller has three options. They can accept the lower offer, counter your offer or reject it completely. Remember that there could be another buyer who is also interested in the home you've chosen. If they happen to write an offer at the same time you do, the seller will have two offers to compare. There are usually many aspects of each offer to consider, but ultimately the seller will want to accept the best and most complete offer. In active real estate markets, homes often sell for their listed price. In hot markets, there may be many buyers vying for the same house, which sometimes drives the final sale price above the original listing price.

As real estate professionals, we can help you plan your strategy, based on the current real estate market in our area.

## WHAT IF I NEED TO SELL MY HOME BEFORE I BUY A NEW ONE?

To put yourself in the best negotiating position before you find the new home you want, hire a qualified real estate agent to help you put your home on the market. Once you write an offer on a new home, your offer will be "contingent" upon the sale of your home. A buyer in this position may not have the same negotiating power as one whose home has already sold (or at least has an accepted offer). The seller may be hesitant to accept your offer because there are too many things that must happen before the sale can close.

# Buyer Terms

## LOAN AMOUNT

The amount of the mortgage based on the purchase price, minus the down payment.

## DOWN PAYMENT

Cash that the buyer provides the lender as their portion of the purchase price. The down payment is considered the buyer's equity (or cash investment) in their home.

## POINTS

Fees charged by the lender to offset their interest rate, if it's below the prevailing market rate. One point equals one percentage point—so one point on a \$100,000 loan would be \$1,000.

## APPRAISAL FEE

The amount paid for the lender's appraisal of the property.

## CREDIT REPORT FEE

The fee charged by the lender to obtain a credit report on the buyer.

## TITLE INSURANCE FEE

A one-time premium that a buyer pays for protection against loss or damage in the event of an incorrect search of public records or misinterpretation of title. The title insurance policy also shows what the property is subject to in terms of liens, taxes, encumbrances, deed restrictions and easements.

## ESCROW FEE

The amount a buyer pays the escrow company or closing agent for preparing papers, accounting for all funds and coordinating the information between all parties involved in the transaction.

## CLOSING COSTS

A general term for all the estimated charges associated with the transfer of ownership of the property.

## PREPAID INTEREST

The amount of interest due on the loan during the time period between closing of escrow and the first mortgage payment, due at the time of closing.

## PITI

The estimated house payment, including principal, interest, taxes and insurance.

## PRINCIPAL AND INTEREST

The loan payment, consisting of the amount to be applied against the balance of the loan, and the interest payment, which is charged for interest on the loan.

## TOTAL CASH REQUIRED

The total amount of cash the buyer will need, including down payment and closing costs.

## PREMIUM MORTGAGE INSURANCE (PMI)

Insurance for the lender, to cover potential losses if the borrower defaults on the loan.

# Buyer Closing Costs

These are the typical fees paid by a buyer and seller in a real estate transaction. In some cases these fees may vary slightly.



## BUYER COSTS

- LENDER'S TITLE INSURANCE POLICY
- 50% OF THE ESCROW FEE
- RECORDING FEES
- SURVEYS
- 1ST YEAR FIRE INSURANCE (AND FLOOD INSURANCE IF APPLICABLE)
- DOCUMENT PREP FEES (I.E. QUIT CLAIM DEED)
- MISC. WIRE FEES
- MISC. COURIER FEES
- MISC. SIGNING FEES
- PRO-RATED PROPERTY TAXES
- HOME WARRANTY (DEPENDS ON CONTRACT)
- PROPERTY AND PEST INSPECTION
- HOMEOWNER'S ASSOCIATION FEE (PRO-RATED DUES, TRANSFER FEE, CAPITAL CONTRIBUTION)
- LENDER FEES (I.E. APPRAISAL, CREDIT REPORT, LOAN FEES, PMI)

## SELLER COSTS

- OWNER'S TITLE INSURANCE POLICY
- 50% OF THE ESCROW FEE
- EXCISE TAX
- REAL ESTATE COMMISSION (STANDARD 6%)
- UTILITY PAYOFFS
- LOAN BALANCE
- DOCUMENT PREP FEES (I.E. POWER OF ATTORNEY)
- MISC. WIRE FEES
- MISC. COURIER FEES
- MISC. SIGNING FEES
- PRO-RATED PROPERTY TAXES
- HOME WARRANTY (DEPENDS ON CONTRACT)
- HOMEOWNER'S ASSOCIATION FEE (PRO-RATED DUES, RESALE CERTIFICATE)
- FHA / VA FINANCING

# Writing an Offer

When the time comes to write an offer, we will use standard NWMLS forms. While every offer will vary based on the specific property, the seller's wants or needs, and how competitive the property may be (or not be), these are the general forms we will use as a starting place.

## Form 21 - Purchase & Sale Agreement

### PURCHASE PRICE

This is the initial asking price of your offer. Many times it is not the final agreed upon price as there is usually a couple rounds of negotiations. Together, we will work to determine your initial purchase price based on the house, current market data, how many days it's been on the market, and if you are competing with any other buyers.

### EARNEST MONEY

Typically 3% of the purchase price. Earnest money is due within 2 days of mutual acceptance and is retained by the closing agent (escrow company). It is typically held in escrow until closing and goes towards your final purchase price. Once all of the contingencies are removed and we have a "firm sale", the earnest money becomes what we call "at risk". At this point in the transaction, if the buyer breaches the contract for any reason, buyer may forfeit their earnest money.

### CLOSING DATE

Standard offers are typically 30-day closings. Closing is when the seller receives their money and title is officially transferred to the buyer.

### POSSESSION

Possession is the day the buyer takes possession of the house. Most of the time, possession is on the day of closing at 9pm.



## Form 22A - Financing Contingency

The boiler plate is a 21-day contingency. That being said, we will talk to your lender and see how quickly they think they can help us get your loan processed and closed. Keeping with the 21-day boiler plate, this would mean that on day 21 after receiving mutual acceptance, the seller has the right to send the buyer notice to remove the financing contingency. From receipt of seller's notice, buyer has 3 days to remove this contingency or the seller has the right to terminate the contract and put the house back on the market.

Often times, the financing contingency is the last contingency to be removed. Therefore after removing this contingency, a buyer's earnest money would essentially be "at risk" if buyer failed to get financing or backed out of the transaction for any reason.

## Form 22D - Optional Clause

We typically suggest checking items 1, 3, 4, 5 (and 8 if there is a Homeowners Association, typically for condos or newer residential developments where they share common amenities or have CCRs). These are pretty straight forward (seller cleaning / maintaining the property in its current condition throughout close of escrow).

## Form 22J - Lead Base Paint

For any home built prior to 1978 the seller has to disclose if they know of any lead base paint or have any record of it within the home. Homes built after 1978 do not need to include this form.

## Form 22K - Identifications of Utilities

This form is used by the closing agent (escrow officer) to confirm all of the utilities are paid in full by the seller at close of escrow. It is also used to share with you, as the new buyer, what utilities you will need to transfer into your name / set up once you take possession. This is not a contingency but something we will include.

## Form 22T - Title Contingency

This contingency is to review the commitment for title for the property and to ensure the seller has the right to sell the property and that there are no liens on the property. In a non-competitive offer, the boiler plate for this contingency is 5 days after mutual acceptance.

## Form 35 - Inspection Contingency

An inspection contingency is often somewhere between 5-10 days. During this time you would select an inspector (our team has some we can recommend) to come and inspect the property inside and out. They usually produce an inspection report within 24 hours which we would review and go over together. Based on what we find out from the inspection, you can remove this contingency and proceed towards closing, ask the seller to fix / address certain items prior to closing, ask for a credit from the seller in lieu of any major items that need to be fixed, or you can walk away from the property, terminate escrow, and your earnest money will be returned to you.

## Form 17 - Seller Disclosure

This is the seller's disclosure form which the seller is required to fill out to the best of their knowledge disclosing everything they know about the house, both good and bad.



# Writing an Offer in a Multiple Offer Situation

When the time comes to write an offer, we will use standard NWMLS forms. While every offer will vary based on the specific property, the seller's wants or needs, and how competitive the property may be (or not be), these are the general forms we will use as a starting place.

In the event of a multiple offer situation, it is not uncommon to see some modifications to the forms. Below are some ways a buyer can strengthen their offer.

## Form 21 - Purchase & Sale Agreement

### PURCHASE PRICE

In a multiple offer situation, it is not uncommon to offer full list price or even slightly above list price with an escalation clause (Form 35E). The escalation clause will essentially escalate your purchase price to a certain point beyond the next highest competing offer. We will explain more about the escalation clause below.

### EARNEST MONEY

In a competitive offer situation, a strategy some buyers use to strengthen their offer is to increase their earnest money as high as 5-10% of purchase price. Sometimes buyers will even release all or a portion of their earnest money either up front or at a certain point in the transaction, say 10 days after mutual acceptance. This is not required but it gives the seller a lot of confidence in the seriousness of the buyer as no one is going to willingly walk away from any amount of earnest money. Some thought behind this is if you write a non-contingent offer or all of your contingencies are removed 10 days after mutual acceptance, a buyer's earnest money is essentially already at risk... so if you are that confident in your offer, it shouldn't matter as much if you release your earnest money to the seller upfront (especially since it goes toward the final purchase price).



### CLOSING DATE

In a competitive offer situation, we can see closing as short as 21 days. In this event, we would confirm with your lender that they are confident in their ability to process your loan and fund in a shortened amount of time.

### POSSESSION

In a competitive offer situation and if the seller is still occupying the property, buyers may offer 1 week to 1 month of rent back to the seller for free. If the seller is already moved out, this wouldn't apply.

## Form 22A - Financing Contingency

In a competitive offer situation, a buyer will want to shorten their financing contingency to be as short as possible. Sometimes, if a buyer is 100% confident in their ability to qualify for a loan and we know the house will appraise at value, a buyer may remove the financing contingency from their offer even though they are still obtaining financing. In this case, the offer is not contingent upon the buyer's loan.



## Form 22D - Optional Clause

In a competitive offer situation, some listing agents will pre-upload all of the HOA documents to the NWMLS listing which we can pull down for you. In a competitive offer, many buyers will waive the HOA review period and make sure they are okay with all of the HOA documents prior to submitting an offer.

## Form 22T - Title Contingency

In a competitive offer situation, the preliminary title commitment may be pre-uploaded to the listing which we will be able to pull down for you. The seller in this case is hoping that the buyer will review the title between now and when you submit an offer and waive this contingency at the point of mutual acceptance.

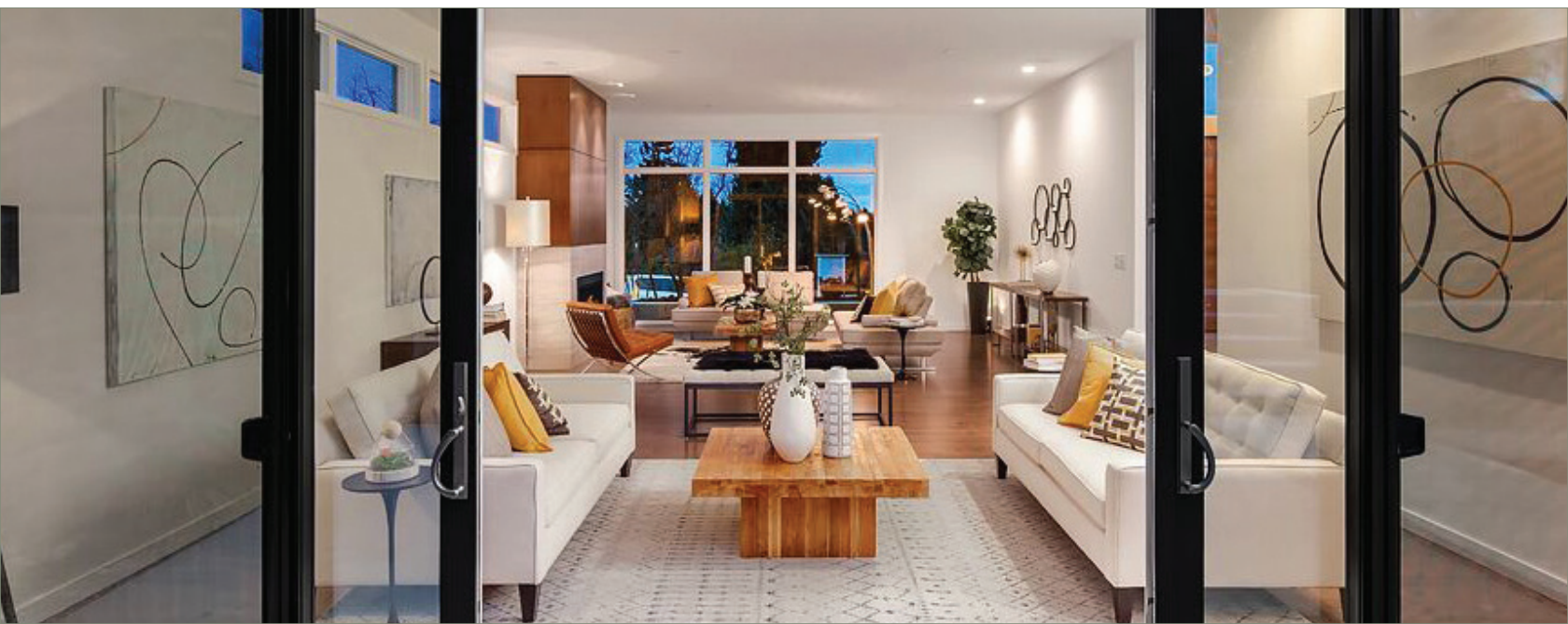
## Forms 35 & 35W - Inspection Contingency

In a competitive offer situation, many buyers will conduct a pre-inspection and remove the inspection contingency from the start.

In recent years of a competitive market, many sellers will conduct their own inspection and will share it with all interested parties. Some buyers will be comfortable using the seller's inspection and if they are okay with everything they read in the report, will waive the inspection contingency. Other buyers may still want to conduct their own independent inspection prior to writing an offer (called a "pre-inspection") or after mutual acceptance despite the seller's inspection.

## Form 35E - Escalation Clause

If we know you will be competing against another buyer(s), we will likely include a Form 35E. In this event, we would come in at your initial offering price (usually full price or slightly over full price) and then include the escalation clause. The escalation clause states that in the event there is another offer higher than yours, you will escalate your purchase price by a certain amount over the next highest offer up to a certain price (your max). For example, if you came in on an offer at \$800,000 and said you will escalate in increments of \$5,000 over the next highest offer up to \$825,000 and another offer comes in at \$805,000, your offer would automatically escalate up to \$810,000. However, if the other offer has an escalation clause up to \$822,000, your offer would automatically escalate to \$825,000 which is your max (your offer can't be escalated over \$825,000 even though  $\$822,000 + \$5,000$  is  $\$827,000$ ). If the other offer had a higher escalation clause, they would then escalate over your highest price of \$825,000 and essentially out-bid your offer.



# Strategies to Win

## PRICE



- No upper limit
- Upper limit: \$ \_\_\_\_\_
- Escalation amount\*: \$ \_\_\_\_\_
- Above list: \$ \_\_\_\_\_
- At list
- Below List

\*Over highest verifiable offer

## FINANCING



- Cash
- Release of earnest money
- Down Payment: \_\_\_\_\_ %
- 95% Financing FHA
- 100% Financing | USDA/VA
- Seller Concessions

## INSPECTION



- Won't do an inspection
- Inspection, but take "as is"
- Inspection, but waive items under: \$ \_\_\_\_\_
- Inspection for main components only
- Full Inspection

## APPRAISAL



- Waive appraisal
- Will bring up to \$ \_\_\_\_\_ difference
- Must appraise to list, will bring \$ \_\_\_\_\_
- Must appraise to list price
- Must appraise to sales price

## TIMING



- Close and rent back to seller
- Close per seller's timeline
- Close in 30 days or less
- Close in 45 days or more
- Close contingent on sale of buyer's home

## SELLER EXPENSES



- Seller home warranty
- Assume sewer capacity charge
- Buyer removes trash
- Buyer to clean

## OTHER

- Inclusions:  Per List  More than list  
Exclusions:  Per List  More than list

- Seller rents back at:  No cost  
 No deposit  
 Loan per diem

Number of days: \_\_\_\_\_

# After Mutual Acceptance

Once you are under contract, we will provide an “Escrow Timeline” and “Players Sheet” specific to your transaction. It will have all of the information you need and will map out all of the important dates and timelines between mutual acceptance and close of escrow so nothing gets missed or overlooked.



# What is Escrow?

## Understanding the Escrow Process

An escrow is an arrangement in which a neutral third party (the escrow agent) assembles and processes many of the components of a real estate transaction, records the transaction, and ultimately, disburses and distributes funds according to the buyers', sellers' and lenders' instructions.

Your transaction is typically closed by an Escrow Officer. People buying and selling real estate usually open an escrow for their protection and convenience. Both the buyer and seller rely on the escrow agent to carry out their written instructions relating to the transaction and to advise them if any of their instructions are not mutually consistent or cannot be carried out. If the instructions from all parties to an escrow are clearly drafted, the escrow officer can proceed on behalf of the buyer and seller without further consultation. This saves much time and facilitates the closing of the transaction.

## In Summary

Escrow is the process that assembles and processes many of the components of a real estate transaction. The sale is officially closed when the new deed is recorded and funds are available to the seller, thus transferring ownership from the seller to the buyer. The escrow agent is a neutral third party acting on behalf of the buyer and seller.

## Typical Roles in the Closing Process

### THE SELLER/AGENT

- DELIVERS A FULLY EXECUTED PURCHASE & SALE AGREEMENT TO THE ESCROW AGENT
- EXECUTES THE PAPERWORK NECESSARY TO CLOSE THE TRANSACTION

### THE BUYER/AGENT

- DEPOSITS COLLECTED FUNDS REQUIRED TO CLOSE (IN WITH THE ESCROW AGENT)
- APPROVES THE COMMITMENT FOR TITLE INSURANCE, OR OTHER ITEMS AS CALLED FOR BY THE PURCHASE & SALE AGREEMENT
- EXECUTES THE PAPERWORK AND LOAN DOCUMENTS NECESSARY TO CLOSE THE TRANSACTION

### THE LENDER

- DEPOSITS LOAN DOCUMENTS TO BE EXECUTED BY THE BUYER
- DEPOSITS THE LOAN PROCEEDS
- DIRECTS THE ESCROW AGENT OF THE CONDITIONS UNDER WHICH THE LOAN FUNDS MAY BE USED

### THE ESCROW AGENT

- CLEARS TITLE
- OBTAINS TITLE INSURANCE
- OBTAINS PAYOFFS AND RELEASE DOCUMENTS FOR UNDERLYING LOANS ON THE PROPERTY
- RECEIVES FUNDS FROM THE BUYER AND/OR LENDER
- PREPARES VESTING DOCUMENT AFFIDAVIT ON SELLER'S BEHALF
- PRORATES INSURANCE, TAXES, RENTS, ETC.
- PREPARES A FINAL STATEMENT *(often referred to as the "Settlement Statement") for each party, indicating amounts paid in conjunction with the closing of your transaction)*
- FORWARDS DEED TO THE COUNTY FOR RECORDING
- ONCE THE PROPER DOCUMENTS HAVE BEEN RECORDED, THE ESCROW AGENT WILL DISTRIBUTE FUNDS TO THE PROPER PARTIES

# What is Title Insurance?

## About Title Insurance

Title is a bundle of rights in real property. Protecting purchasers and lenders against loss is accomplished by the issuance of a title insurance policy. Usually, during a purchase transaction the lender requests a policy (commonly referred to as the Lender's Policy) while the buyers receive their own policy (commonly referred to as an Owner's Policy).

In short, the policy states that if the status of the title to a parcel of real property is other than as represented, and if the insured (either the owner or lender) suffers a loss as a result of a title defect, the insurer will reimburse the insured for that loss and any related legal expenses, up to the face amount of the policy, subject to exceptions and exclusions contained in the policy.

Typically there are two policies issued. The Mortgagee's Policy insures the lender for the amount of the loan. The Owner's Policy insures the purchaser for the purchase price.

## How is title insurance different from other types of insurance?

While the function of most other forms of insurance is risk assumption through the pooling of risks for losses arising out of unforeseen future events (such as sickness or accidents), the primary purpose of title insurance is to eliminate risks and prevent losses caused by defects in title arising out of events that have happened in the past. To achieve this goal, title insurers perform an extensive search and examination of the public records to determine whether there are any adverse claims (title defects) attached to the subject property. Said defects/claims are either eliminated prior to the issuance of a title policy or their existence is excepted from coverage. Your policy is issued after the closing of your new home, for a one-time nominal fee, and is good for as long as you own the property.

## What's involved in a Title Search?

### A TITLE SEARCH IS ACTUALLY MADE UP OF THREE SEPARATE SEARCHES:

#### CHAIN OF TITLE

History of the ownership of the subject property

#### TAX SEARCH

The tax search reveals the status of the taxes and assessments

#### JUDGMENT AND NAME SEARCH

Searches for any judgments and liens against the owners' and purchasers' names

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Once the three searches have been completed, the file is reviewed by an **examiner** who determines:

- Whether or not the Chain of Title shows that the party selling the property has the right to do so
- The status of taxes for the subject property — the Tax Search will also indicate the existence of any special assessments against the land and whether or not these assessments are current or past due
- Whether there are any unsatisfied judgments on the Judgment and Name Search against the previous owners, sellers, or and purchasers

Rights established by judgment decrees, unpaid federal income taxes and mechanic liens all may be prior claims on the property, ahead of the buyer's or lender's rights. The title search will only uncover defects in title that are of public record, thus allowing the title company to work with the seller to clear up these issues and provide the new buyer with title insurance.

## In Summary

After the searches have been examined, the title company will issue a commitment, stating the conditions under which it will insure title. The buyer, seller and the mortgage lender will proceed with the closing of the transaction after clearing up any defects in the title that have been uncovered by the search and examination.

# The Path to Closing

