GUIDE FOR

HOME BUYERS

During your home search, your real estate agent is your lifeline. Whether they're helping you compare properties in your favorite neighborhood, listing your house, or helping you navigate the process of closing, your agent is committed to helping you find the home of your dreams.

But, even with an experienced agent by your side, you still need to have a solid understanding of the homebuying process. After all, your new home will be one of the most expensive purchases you'll ever make! You should know a thing or two, and that's why I've put together this handy buyer's guide. It's here to demystify the process so you can feel confident along the journey to finding your future home.

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A Step-By-Step Guide to Buying A Home

HOW THE HOME-BUYING PROCESS WORKS

01 Research And Prepare

Are you ready to buy?

While you may feel ready to buy a home, it's worth assessing your personal level of interest in home ownership before you make what will likely be the largest purchase of your life. There are many hidden costs that come with home ownership: From property taxes to utilities, these costs can add up quickly, and if you're not prepared, it can feel like you're drowning in tiny details.

Make sure you're financially prepared for not only your down payment and mortgage, but these hidden costs as well. Beyond financial concerns, you should spend some serious time thinking about your personal pros and cons of home ownership.

Pros/Cons List

Pros

✓ Freedom to renovate at your leisure

✓ Real estate increases in value over time; your new home is a long-term investment

✓ With a fixed-rate mortgage, you can lock in a monthly payment and plan around it accordingly

Cons

χ Landscaping and general home maintenance are now your sole responsibility

χ The hidden costs of home ownership can snowball

χ Big initial cash investment for down payment

01 RESEARCH AND PREPARE

After you've put some real time and effort into the preparation process, it's time to begin the process of searching for and purchasing your home.

Get Pre-Approved

Before you dive into the home search process, you should get pre-approved by a mortgage lender. Pre-approval doesn't mean you're committing to purchase a property or take out a loan: It's just a signal of interest that makes the process move more smoothly further down the line.

There are two major reasons to get pre-approved before you start looking at homes:

1. Your chosen mortgage lender wants to know whether or not you're qualified to borrow money from them. To determine whether or not you're qualified, they'll look at your income, your outstanding debts, your credit score, and your general financial health.

2. Getting pre-approved helps you understand what your price range is, because it'll tell you how much a lender is willing to let you borrow. Knowing what type of mortgage you'll be able to secure will help you decide what price range to look in.

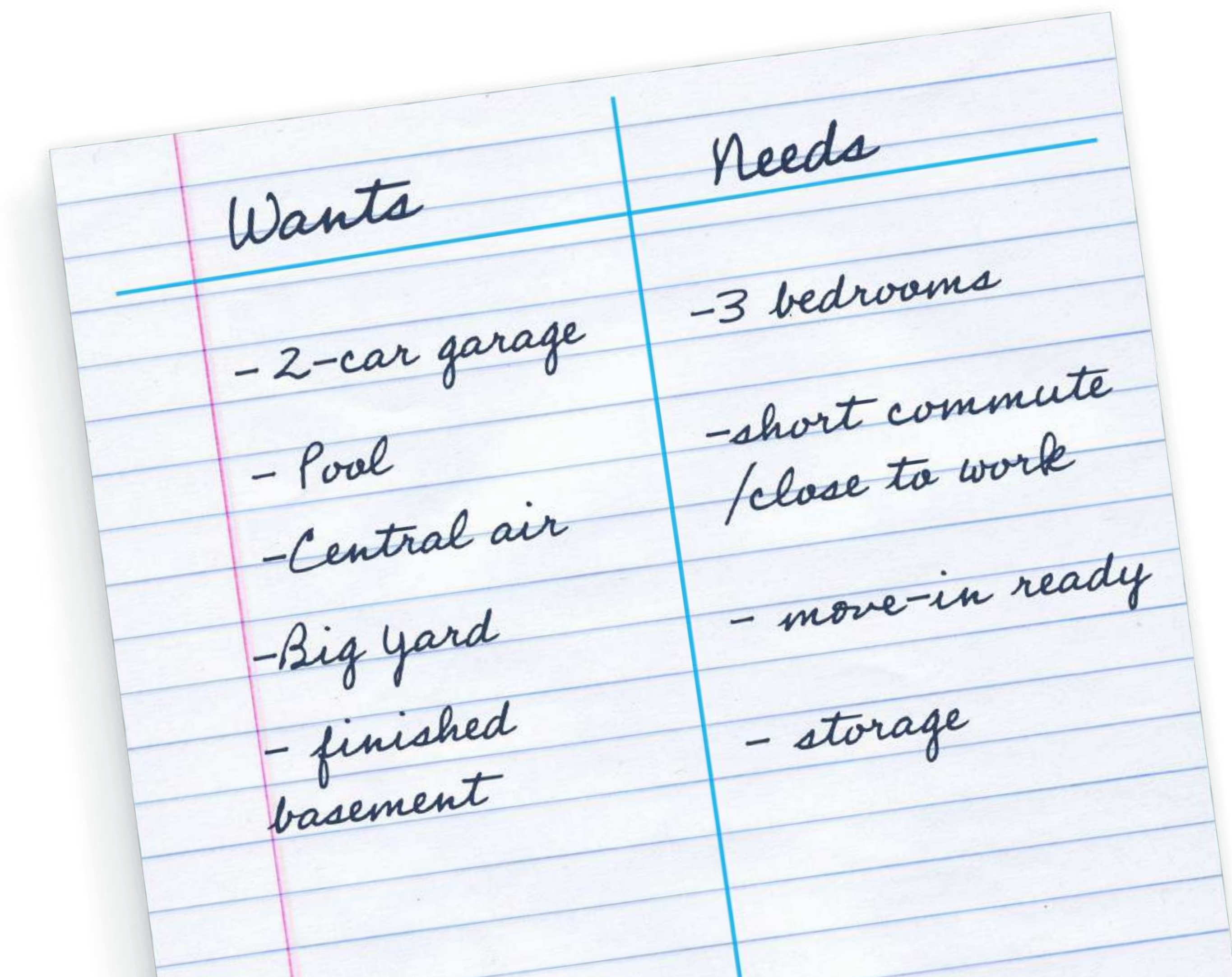
Find an Agent

Last but most certainly not least, you should find an agent before you start looking for a home. No, it's not a requirement — plenty of people have searched for and purchased homes without the help of an agent. But an agent's dedicated real estate know-how will be invaluable during your house hunt.

Buying a home is one of the biggest investments you can make, so you should make sure you've got the help and tools you need to manage that investment from start to finish.

02 Narrow Your Search

Before you begin your house hunt, start off with a list of “wants” and “needs.” Try to be as realistic as possible: Depending on your budget, you’ll likely end up in a situation where you have to make compromises to find the home that works best for you. With those “wants” and “needs” written down and ready to go, here are a few things to keep in mind as you’re house hunting:



02 NARROW YOUR SEARCH

Start at Home

Before you take your home search outside of your current home, make a list of the things you like (or love) about your current space. Do you get great natural light? Are you on a quiet street? Do you have friendly neighbors?

You may take these things for granted on a daily basis, but honing in on the things you like about your current home will help you guide and focus your search.

Research the Schools

Whether you've got little ones at home or not, schools have a huge impact on the potential value (and resale value) of your next home. Do your research and make sure that you're looking at homes in school districts you'd feel comfortable living in. After all, even if you don't have children now, plans can always change.

Buying a home is a long-term investment, and ensuring that your new home is in a good school district can make all the difference a few years down the road.

The Parking Situation

If you're looking at a single-family detached home, look beyond the existence of a driveway. Is it easy to enter and exit your home? Is there enough parking available for all your family's cars?

02 NARROW YOUR SEARCH

Take Stock of Curb Appeal

You can change a lot about a home, but beyond a few coats of paint, changing the way it looks on the outside can become a huge undertaking.

Do you like the overall look of the house? Would you feel comfortable showing this home off to your friends and family?

Pro Tip

COSMETIC ISSUES CAN BE CHANGED OVER TIME, BUT STRUCTURAL ISSUES ARE LIKELY CAUSE FOR ALARM.

Location, Location, Location

It's easy to get caught up in what seems like the "perfect" house, but what happens if that perfect house is an hour from friends, dining, and entertainment? Searching for the perfect location to settle down in is full of trade-offs: After all, some people would flourish in a home that's an hour from entertainment but 15 minutes from work. Keep your desired neighborhood characteristics at the front of your mind as you browse, but remember that nothing will be perfect.

Keep an Eye Out for the Unexpected

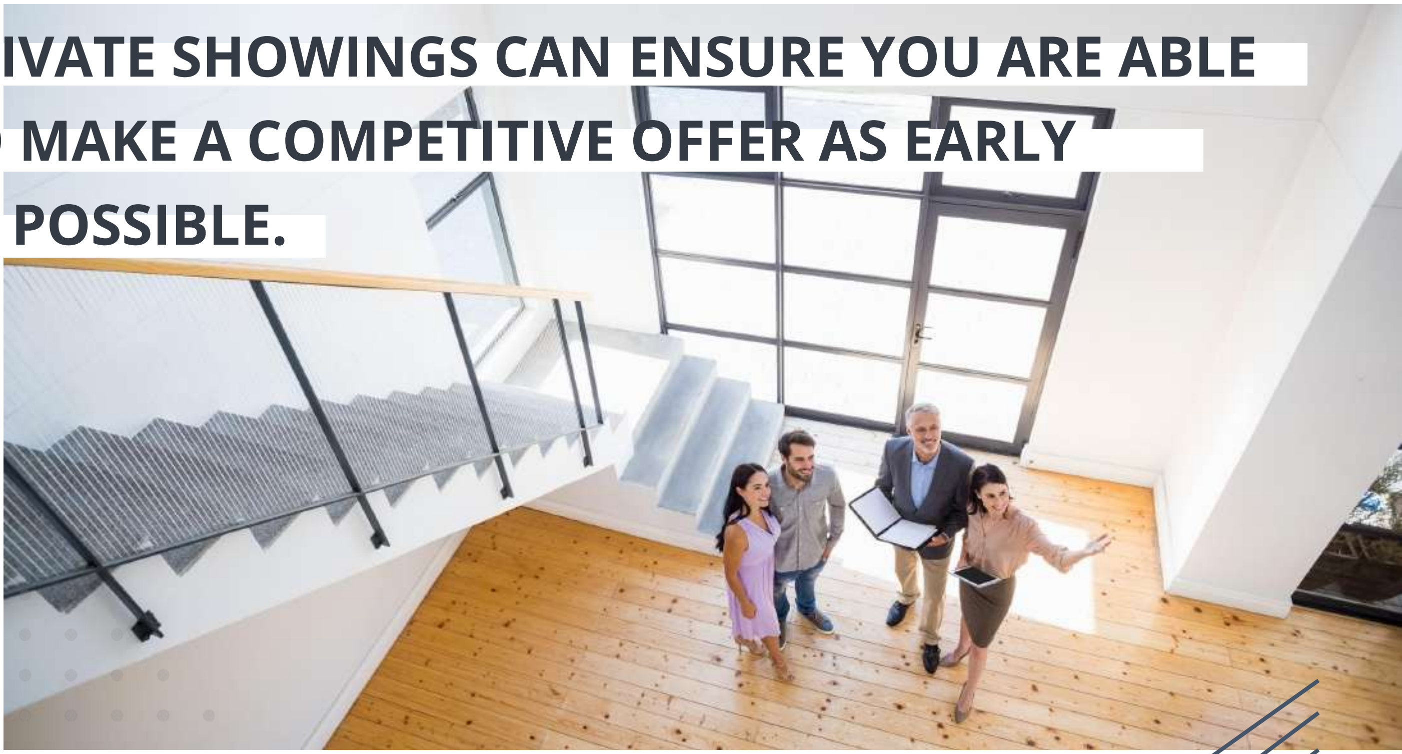
When you're hunting for your next home, keep an eye out for any potential non-cosmetic issues. That puke-green carpet may be ugly, but it's not nearly as significant as potential mold or water damage under that same carpet. If your issues are just cosmetic, leave the home on your list: After all, carpets, paint, fixtures, and even your floorplan can all be changed with time and money, but larger structural issues are likely reason for concern.

03 Viewing Properties

Once you've narrowed down the list of homes you'd like to see, it's time to connect with your agent. Some of the homes on your list will have upcoming open houses, but your agent can help you see properties before then.

Agents have access to information about private showings, which can supplement any open houses you choose to go to. A private showing is arranged between the seller and your agent, and these showings allow you to see properties on a schedule that works for you. Open houses are still a great way to check out a home you love, but if you're in a competitive market, setting up private showings can ensure that you have the information you need to make a competitive offer as early as possible.

PRIVATE SHOWINGS CAN ENSURE YOU ARE ABLE TO MAKE A COMPETITIVE OFFER AS EARLY AS POSSIBLE.



04 Making an Offer

You've found the home of your dreams. Now, the only thing standing between you and that home is, well... a lot of paperwork.

This process begins with assembling an offer (don't worry: Your agent will guide you through this process).

A written offer can include a number of different sections, including:

- A legal address and sometimes the legal property description
- Details regarding the purchase price and terms
- Information about closing costs and fees
- The date and time of the offer's expiration
- Your projected loan closing date
- Other state-required provisions or disclosures

...and more. Before making your initial offer, it's important to work with your agent in order to determine the most financially sound offer. If you undercut the seller too heavily, it could potentially make them feel undervalued, but if your offer is too generous, there's a chance you could lose out on thousands of dollars of savings.

Once you've set the cookie cutter parts of your offer in place, there's another piece to the paperwork puzzle:

04 MAKING AN OFFER

Contingencies

Contingencies are conditions that must be met in order to complete the sale of your new home. These contingencies usually help to protect the buyer against any wrongdoing or shady dealings in the home buying process. The most common types of contingencies are:

Appraisal contingencies
Ensures the property is valued at a pre-set minimum amount

Financing contingencies
Ensures the buyer has time to secure a loan

Home sale contingencies
Gives the buyer time to complete the sale and settlement of their current home in order to purchase their new home

Inspection contingencies
Gives the buyer the right to order an inspection within a set time period

Kick-out clause
If another qualified buyer steps up, the seller gives the current buyer a specified amount of time (such as 72 hours) to remove the house sale contingency and keep the contract alive. Otherwise, the seller can back out of the contract and sell to the new buyer.

Most contingencies provide an extra level of protection for homebuyers, but there ***are*** times where it makes sense to leave contingencies out of your offer. For example, buyers in hyper-competitive markets might choose to leave contingencies out of their offer in order to move the home-buying process along as quickly as possible. Be sure to consult your agent before adding or removing any contingencies from your offer.

04 MAKING AN OFFER

Negotiate

Negotiations with the seller begin once they've received your initial offer. There's certainly a chance (albeit a very slim one) that the seller accepts your initial offer outright, but there will likely be some pushback.

Some sellers will focus on price over anything else, while others may be more focused on getting you to remove some contingencies from your initial offer. These could continue after the formal offer is submitted — e.g. you could request repairs based on the home inspection, and the seller may negotiate a drop in sale price to cover the repair costs instead.

Use your best judgement while negotiating, and make sure to consult any involved parties before advancing the process any further. There could be several rounds of negotiation, so don't despair if negotiations take longer than you'd like.

Submit your formal offer

Until this stage of the process, your offers have been informal. Once you've worked with the seller and landed on an offer that sounds good to both parties, your agent will help you put together a formal offer which will include a contract and a disclosure package.

04 MAKING AN OFFER

Read and sign purchase agreement

Once you and the seller have settled on terms, read through the contract thoroughly. Your agent will help you parse through the nitty-gritty terms of the contract, ensuring that everything looks just right. You can also enlist an attorney to help out with this process — there's definitely a cost associated with this, but your home is the largest investment you can make, and you should do everything you can to ensure the contract is up to snuff before moving forward.

Once you, your agent, and your attorney (if applicable) have pored over the offer, it's time to sign your purchase agreement. You're not a homeowner just yet, though.

05 After the Offer

Complete your loan application with signed purchase contract

There's still paperwork left to be done. If you got preapproved for your mortgage, it's time to submit your signed purchase agreement to your mortgage lender. While your lender is reviewing your application, be sure to stay away from any major purchases. These may come off as red flags to lenders, potentially leading to your loan falling through.

Pro Tip

AVOID LARGE PURCHASES WHILE YOUR APPLICATION IS UNDER REVIEW TO PREVENT ALARMING YOUR MORTGAGE LENDER.

If you weren't prequalified for your loan, now is the time to submit proof of income, verification of your assets, and your signed purchase contract to your mortgage lender.

At this point in the process, your lender may ask you if you want to "lock in" your interest rate, meaning that your interest rate won't change, even if interest rates go up or down while you are waiting for your loan to be approved.

There are pros and cons to locking in an interest rate: If you think interest rates will go down, it makes sense to wait in an effort to save a fair amount of money over the lifetime of your loan.

On the other hand, if you're unsure about fluctuations in interest rates (or really just don't want to think about them too much), it's completely fine to lock in your rate right away.

There are some other thorny terms you'll likely run into during the process of applying for a loan: Below are four big things to keep an eye on during your loan application process:

05 AFTER THE OFFER

Escrow: Escrow is a general term to describe the part of the home-buying process when a third party (usually an escrow provider) holds on to the bulk of the money involved in your offer, ensuring that both the buyer and the seller meet their obligations.

Equity: Equity is the difference between the value of your home and the amount you still owe on your mortgage.

PMI: PMI, or private mortgage insurance, is a type of mortgage insurance you may be asked to pay depending on the type of loan you're applying for. This insurance isn't to protect you: It's to protect the lender in case you're no longer able to pay your mortgage.

Earned money deposit: An earned money deposit is usually part of your initial offer. This deposit is almost literally putting your money where your mouth is — if you back out after submitting a formal offer with an earned money deposit, the seller gets to keep the money.

Once your offer is accepted...

You're in the home stretch! There's more work to be done, though.

First, you'll need a homeowner's insurance quote. All lenders require it, and it'll cover any damage that happens as a result of a natural disaster or other "act of god." Your loan can't be closed until you provide proof of homeowner's insurance, so be sure to make this a priority.

During this time period, your lender will set up an appraisal to estimate the home's value. As long as the appraised value supports the loan you've requested and there's no significant disrepair, this appraisal likely won't hold your loan up.

05 AFTER THE OFFER

ONCE YOUR OFFER IS ACCEPTED:

1. **GET PROOF OF HOMEOWNERS' INSURANCE**
2. **GET AN APPRAISAL**
3. **GET A HOME INSPECTION**
4. **RESPOND PROMPTLY TO LENDER**

This is also the time where you'll set up a thorough home inspection. The inspector will comb through the home top to bottom, looking for any major damage or potential repairs.

One thing to note: the appraisal and inspection portions of your offer aren't required. It's possible to waive appraisal and inspection as part of your offer, but by doing so, you could put yourself at risk of running into a major problem after you've already closed on your new home.

Meanwhile, at your mortgage company...

While all of this is happening, your mortgage company will work on underwriting your loan. This is the process of verifying your income, assets, debt, and property details in order to approve your loan once and for all.

Most of this work happens behind the scenes, but your mortgage company might ask you for additional documentation to help move the process along. For example, they could ask for documentation that backs up any deposits showing up in your bank account to verify that your income and assets match what you reported. Make sure you stay on top of your lender's requests — you don't want to slow the loan process down any further.

06 Closing

Once your loan has been reviewed and accepted, it's time to close on your new home. "Closing" refers to the last step in the home buying process: The transfer of the home's title from the home's current owner to you.

Aside from the emotional cost of signing even more paperwork, there's one major fiscal obstacle associated with closing:

Closing costs

Closing costs encompass a huge variety of individual one-time charges, including:

- Title policies
- Escrow or closing fees
- Notary fees
- Wire fees
- Courier / delivery fees
- Attorney fees
- Endorsements
- Recording
- State, county or city transfer taxes
- Home protection loans
- Natural hazard disclosures
- Home inspections
- Lender fees

... and more.

Closing costs vary from house to house and situation to situation, but when all is said and done, you can expect to pay between 2 and 5% of your new home's list price in closing costs.

Once you've signed all your paperwork, paid all your closing costs, and double- (and triple-) checked everything, congratulations! You're now a homeowner.

Avoid Common Home-Buying Missteps

When you're looking for your first home, it's easy to get caught up in the excitement of the house hunt. We've compiled a list of missteps that first-time homebuyers may be susceptible to. With these in mind, you can avoid some of the most common real estate problems.

HIRE AN AGENT

AN AGENT IS YOUR ADVOCATE AND WILL WILL HELP IDENTIFY ISSUES IN PROSPECTIVE HOMES, NEGOTIATE ON YOUR BEHALF, AND HELP DEAL WITH THE COMPLEXITIES OF MAKING AND FULFILLING AN OFFER.

✖ Not working with a real estate agent

It might seem like breezing through open houses is something you can do on your own, but there is *so* much more to the home-buying process. An agent is your advocate, and they're not just there to walk you through open houses. An agent will help point out issues in prospective homes, offer market and neighborhood analyses, negotiate on your behalf, and help deal with the complexities of making and fulfilling an offer.

✖ Looking for a home before getting pre-approved for a mortgage

It's tempting to skip this step, but getting pre-approved can save you time later on. Pre-approval is also a huge help when it comes to budgeting for your house hunt: After all, how can you look at houses if you don't know how big of a loan you'll be able to secure?

AVOIDING COMMON MISSTEPS

Not exploring the wide world of mortgage lenders

With quite literally thousands of lenders to choose from, shopping for a mortgage lender can be overwhelming. It's worth it in the end though: Interest rates vary from lender to lender, and choosing the right lender can save you thousands down the line.

Buying too much house

It can be tempting to "go big" when you're looking for a home, but taking on more than you can handle — in terms of both square footage and fiscal responsibility — will absolutely come back to bite you in the long run.

Rushing the process

House hunting can sometimes be frustrating, and settling for a house that's just okay can feel like an easy way out. Resist this temptation as much as you can: Your home is a huge investment, and there's no point settling just to be done with the process.

Not checking your credit report(s)

It's vital to check out your credit reports before you even start looking to buy a home. Knowing your credit score is helpful, but it's more helpful to check for any potential red flags in your credit history that may alarm mortgage lenders.

AVOIDING COMMON MISSTEPS

Fixating on house over neighborhood

It's easy to find yourself infatuated with a house. But before you make any major decisions, take a step back and evaluate your feelings about the neighborhood. You might love the house, but make sure you consider things like your commute and the school zone.

Pro Tip

BE SURE TO CHECK FOR GOVERNMENT PROGRAMS FOR THAT CAN MAKE BUYING A HOME MORE ACCESSIBLE.

Overlooking government-insured loans

A lot of first-time home buyers want — or need — to make small down payments, but they don't always know the details of government programs that make life easier for those who can't put much money down. Programs like VA loans, USDA loans, and FHA loans allow buyers to put little or no money down, making the home buying process infinitely more accessible than it is with many private lenders.

Underestimating the hidden costs of home ownership

From leaky pipes to broken washing machines, there are an infinite number of small costs that will crop up during your time as a homeowner. Before you start your house hunt, make sure you're financially (and emotionally) prepared to deal with whatever comes your way.

Ignoring homebuyer rebates (where applicable)

Also known as commission rebates, these are rebates (of up to 1 percent of the home's sale price) and it comes out of the buyer's agent's commission. On a $400,000 home purchase, this can be a $4,000 savings for you, so be sure to ask about a potential homebuyer's rebate.

AVOIDING COMMON MISSTEPS

Putting too little money down

While you may be able to put up the minimum required down payment for your new home, always spring for a larger down payment than your lender requires. More money upfront = lower monthly payments.

Emptying your savings for your down payment

In contrast to the above point, don't put too much of your savings into your down payment. Home ownership is full of hidden costs, and you'll likely need some money from your savings for a variety of unexpected costs during the time you'll own your home.

Glossary

Here are 14 terms you need to know for your home search:

Closing
Closing is the process wherein the home is officially transferred between parties. Closing also involves the actual disbursement of the funds necessary to consummate (or close) the sale or loan transaction.

Comparable Market Analysis (CMA)
A CMA is a detailed evaluation of specific homes nearby that have comparable features, amenities, lot sizes, or footprints. Your agent will present you with a CMA to assist in coming up with a fair list price for your home.

Earnest Money
Earnest money is a deposit you pay to the seller to show that you intend to secure a mortgage on their property. Depending on your individual situation, you may or may not be able to get your earnest money back if the transaction falls through.

Equity
Equity is the difference between how much your property is worth and how much you still owe on your mortgage.

Escrow
Escrow is a general term to describe the part of the home buying process when a third party (usually an escrow provider) holds on to the bulk of the money involved in your offer, ensuring that both the buyer and the seller meet their obligations.

GLOSSARY

Fixed Interest Rate
An interest rate that never changes over the life of a loan. If you have a fixed rate, 30-year mortgage, your interest rate will be constant for the full lifespan of your 30-year mortgage.

Mortgage Banker
A person, firm, or company that funds the creation of a mortgage. Once the mortgage banker has originated a mortgage, they'll usually collect "mortgage origination" fees.

PITI
PITI is an acronym for principal, interest, taxes, and insurance.

Point
A point is 1% of the dollar amount of your mortgage loan: For example, if you were approved for a $150,000 loan, a single point would be equivalent to $1,500. By paying "points," you may be able to lower the interest rate on your loan.

Pre-approval
A written agreement from a mortgage lender to grant a loan for a home purchase. Before issuing a pre-approval, a mortgage lender will do an in-depth analysis of the potential homebuyer's income, credit history, employment history, personal assets, and debts. Getting pre-approved speeds up the homebuying process: After all, if you decide to place an offer on a home, you won't need to wait around to secure a loan.

GLOSSARY

Pre-qualification
Getting pre-qualified is a way for home buyers to estimate the amount of money they can comfortable spend on a new home. While getting pre-qualified, the buyer (or their agent) compares the potential buyer's income and assets to the buyer's debts. Once a buyer is pre-qualified, they'll have a better idea of what price range to look in while browsing new homes.

Private Mortgage Insurance (PMI)
PMI is a type of mortgage insurance you may be asked to pay depending on the type of loan you're applying for. This insurance isn't to protect you: It's to protect the lender in case you're no longer able to pay your mortgage.

Underwriting
Mortgage underwriting is the process by which a mortgage lender determines whether or not a given buyer will present substantial risk to a lender. Underwriting involves an evaluation of both the property and the buyer's ability (and willingness) to repay the loan on time.

Variable Interest Rate
A variable interest rate is one that is adjusted regularly (usually quarterly) based on an external economic factor. Variable interest rates are commonly tied to the prime interest rate, the Treasury Bill rate, or the Federal Funds rate.