

Home Buying Process

I. Interview

A. Confirm Buyer has been pre-qualified by a lender (If not, Buyer Agent will introduce lender)

1. When was the buyer pre-qualified?
2. How much was the buyer pre-qualified for?

B. Confirm Buyer's needs

1. Time Frame of needing the house
2. Specifics of desired house

II. Look for House

A. Sign "Buyer/Tenant Representation Agreement"

1. Paperwork needed for Buyers to employ Buyer Agent to work on their behalf
2. Buyer Agent has a fiduciary duty to the Buyer Client, and must always put the Buyer's interests first, by law of agency
3. For all houses on HAR.com, Buyer Agent's commission ALWAYS comes from the Seller's Agent. Only for FSBO's and houses not on the market, the Buyer will be responsible for the Buyer Agent's commission, because in these two cases, there is no Seller's Agent. (FSBO = For Sale By Owner)

B. Buyer and Buyer's Agent will search www.har.com for homes that fit the buyer's criteria

C. Buyer's Agent will schedule all appointments to view houses together with the Buyer

D. When Buyer finds a house he want to buy, the Buyer's Agent will submit an offer.

NOTE: Without a signed Buyer/Tenant Representation Agreement, the buyer to agent relationship is not a fiduciary relationship. The buyer is merely a customer of the agent, not a client of the agent. For details, request to see worksheet entitled "Buyer Customer Vs. Buyer Client".

III. Contract to Closing

A. Buyer's Agent to research market pricing and recommend fair price to submit

B. Buyer side submits initial offer, signed (copy of earnest money check and option money check, copy of pre-approval letter is included to prove seriousness)

C. Seller's Agent presents offer to seller who accepts, rejects, or ignores. Buyer's Agent negotiate terms with Seller's Agent.

1. Negotiable terms: Price, Title Policy (est.\$1000-\$2000 depending on price of home-set by the state, chart available on request), Survey (est.\$350), Home Warranty (\$350-\$500 depending on coverage), Closing Day, Earnest Money (1% is normal), Option Money (.01% is normal), Option Period Length (7-10 days is normal), HOA Transfer Fee (nice to split)

D. Terms are agreed upon, contract is finalized, both sides sign and date. This is the 'effective date', the date from which the time clock starts.

E. Contract goes to the title company, earnest money check goes to the title company, option money check goes to the seller's agent. Buyer's option period starts the date after the effective date. There are time sensitive dates by which certain tasks must be completed.

1. Option Period End Date: Paragraph of the Contract. By the end of this date, the buyer must decide whether or not he/she really wants to purchase the property. During the option period, for any reason whatsoever, the buyer may terminate the contract and only forfeit the option money. During the option period, a property inspection should be performed. The inspection report will tell the buyer things that are defective about the property. Inside the option period, the buyer has another chance to negotiate with the seller for repairs. The seller may respond by agreeing to make the repair, give a concession in lieu of repairs, or not agree to do anything. Any changes to the original contract must be in writing and signed by both parties in an Amendment. If the buyer elects to terminate during the option period, the earnest money will be returned to the buyer. The buyer must submit a signed Termination document and the Seller must sign a Release of Earnest money document.

2. Third Party Financing Approval End Date: This date can be found on the Third Party Financing Approval Addendum (Attachment to the contract). By the end of this date, the buyer must know with 100% certainty from the lender, that he/she can obtain a loan to purchase the home. If by the end of this date, the Buyer is not sure, or the lender can not guarantee financing, the Buyer must either terminate the contract or ask the seller for an extension. The seller must agree to the extension in order to have an extension, and because this is a change to the original contract, an Amendment must be signed by both sides before the end of this date.

3. If it is the Buyer's responsibility to buy the survey, the survey must be ordered and provided to all parties (buyer, seller, lender, title company) by the end date noted in paragraph 6C of the contract.

E. Once the inspection has been performed and Seller's Disclosure has been reviewed, the buyer should have good knowledge about what he is buying. Assuming the Buyer decides to move forward with the purchase, and moves out of the option period, the next major task for the Buyer is to secure financing. The lender will ask for particular financial information (pay stubs, IRS tax returns, credit report, etc) and assess the Buyer's financial status and ability to take on a loan. At the same time,

the lender will need to order an appraisal to assess the worth of the property, to make sure it is worth the purchase price. The appraisal is an expense related to getting the loan and is a Buyer's cost. It is recommended that the appraisal NOT be ordered until after the option period is up, or if during the option period, the buyer should be 100% certain that he will move forward with the purchase. This fee is an up front fee for the buyer. (Safest to wait until option period is up).

F. If the lender can guarantee the buyer's loan AND the house appraisal comes in at or above the purchase price the buyer is ready to move towards closing. There are several other things that are also happening in the background.

1. The title company has ordered a tax certificate to show the Seller's taxes have been paid to date and that there are no tax liens on the property.

2. The title company has performed a lien search and has produced a Title Commitment revealing the results of its search. The title company will guarantee to wipe off all liens before or at closing. The owner's title policy is issued at closing and it the Buyer's guarantee that he is buying the property free and clear of any liens.

3. The survey has been ordered (or provided from the seller) to show the lender and title company (and buyer) lot dimensions, easements, and possible encumbrances on the property. A survey is not required in a cash transaction, but is recommended to ensure the buyer knows what easements and encumbrances may attach to the property.

4. The title company has ordered the subdivision docs and resale certificate (for townhomes and condos) so the buyer can review the covenants and restrictions within the subdivision

5. The home warranty product is confirmed by the title company

6. The Buyer should order utilities to begin in their name at the new home's address

7. The Buyer must buy homeowner's insurance, pay the first full year's premium, and show proof of coverage to the title company at least one week before closing.

G. The title company will produce a HUD 1 Settlement Statement to show both parties all the closing costs. This statement shows how much the Buyer needs to bring to closing and how much the Seller will walk away with at closing.

H. A few days before closing, the Buyer and the Buyer's Agent should do a Walk Thru of the property to make sure the seller has vacated the property, and that any promised repair has been completed. The Buyer should sign a Walk Thru and Acceptance form at this time.

I. At closing, the Buyer must bring a cashier's check for the amount due AND a form of picture ID. Keys will be given to the Buyer after the transaction funds. After the both parties sign, all signed documents are sent to the lender, and the lender then wires the money to the title company (as long as

they can receive signed paperwork before 2pm). The title company then gives the seller his money and the transaction is considered 'funded'.

*** When you pay your mortgage payment (loan payment) each month, you pay the bank principle and interest (PI). You have the option to 'escrow your insurance and taxes' or NOT 'escrow your insurance and taxes'. Taxes = T and Insurance = I.

In addition to the loan payment, the lender requires you to always have insurance on the home (to protect the asset) and to keep current on your property taxes (pay them on time each year). Insurance is always paid in advance and covers the coming year (The first payment will be at closing or right before closing- you will pay one full year's worth of home insurance, also called Homeowner's insurance, also called Home Hazard Insurance). Property Taxes are always paid at the end of the year.

1. If you decide to Escrow your insurance and taxes, then each month you will make a PITI payment.

This means, each month, in addition to the PI payment returning your loan, you will also pay 1/12 of your annual insurance premium and 1/12 of your annual property taxes. The bank will create a special account, called an escrow account, and put the 1/12 payments of your TI in there. Then, at the end of the year, the bank will have 100% of your property taxes collected and will pay your property taxes for you, with your money. On the anniversary of your house purchase date, the bank will have 100% of your insurance premium collected (for the upcoming year), and will pay your insurance for you (to the company of your choice). This is a very convenient system and most people do it- they pay a PITI payment each month.

2. If you decide NOT to escrow your insurance and taxes, then each month you will only pay a PI payment.

This means, each month, your monthly payment will be lower (will not include 1/12 of the annual insurance premium and will not include 1/12 of your annual property taxes. Instead, at the end of the year, you have to pay your property taxes yourself, to the various tax authorities (school tax, water tax, county tax, etc). This may total some big number like \$4000-\$5000 (property tax amount = tax rate X value of the house determined by the appraisal district (not necessarily market value of the house, and protest-able)). Many people don't have such big money saved and when it comes to the end of the year and they have to make this payment, they stress out. Additionally, on the anniversary of your home purchase date, you will have to come up with the annual insurance premium in full.

I recommended option 1, escrowing your insurance and taxes.

IV. What to Expect After Closing

A. The warranty deed (paper showing the Buyer's name as the owner of the house) is sent for recording at the court house by the title company right after closing. After it is recorded, it will be sent to the Buyer several weeks later.

B. The Buyer should wait until Jan 1 of the following year to file for a 'homestead exemption' which is a discount a homeowner can get for owning and living in a home. Each person can only have one homestead exemption. In order to get this discount, the Application for Homestead Exemption must be submitted to the county appraisal district after Jan 1 of the following year. Copy attached.

Extra Notes and Tips:

1. The option money and the earnest money will credit towards the balance due if the contract is consummated.
2. Note the default paragraph 15 of the contract. In many (but not all) cases, the punishment for the buyer defaulting on the contract is forfeiture of the earnest money. However, the punishment for the seller defaulting is not as viable. The buyer would have to sue in small claims court to recover financial loss, and this avenue is rarely pursued.
3. All fees related to the loan (loan origination fee, appraisal, lender fees), homeowner's hazard insurance, and escrow fees are Buyer closing costs. These costs can be offset by asking the Seller for a Seller's Concession to Buyer's Closing costs (paragraph 12 of the purchase contract).
4. Who the buyer chooses as his Buyer's Agent is critical to getting the best deal possible. Not all Buyer Agents are the same! Choose a Buyer's Agent that has these two designations: ABR (Accredited Buyers Representative" from the National Association of Realtors, and CNE (Credited Negotiation Expert). Agents who have these designations are highly trained to represent buyers (a different skill set than representing sellers, who are more highly skilled in marketing properties). They have extremely effective negotiation skills and are able to suggest and advise a variety of alternatives that will be beneficial to the buyer, in the event the seller will not come down to the buyer's desired price. Some examples include: Negotiating for the seller to contribute to the Buyer's closing costs, waiting until the end of the option period to negotiate for repairs and extra concessions, negotiating a home warranty to be paid for by the seller, negotiating for the seller to pay for the survey or close on a particular date advantageous to the Buyer, negotiating for the seller to pay down the buyer's interest rate. ABR designees are specialists in the Contract to Closing process and help guide the buyer stay within the terms and deadlines of the contract. A highly skilled Buyer's Agent is also aware of the various ways to help a Buyer get out of a signed contract if the Buyer decides he needs to. The most important decision to make for a Buyer is who to hire to represent him/her as their agent. One of the most dangerous decisions a Buyer can make is to not hire an agent to represent him/her. Remember that a Seller's Agent (the person on the yard sign) has a fiduciary duty to protect and promote the best interests of the Seller, always. That includes getting the highest price for the Seller, and the best terms for the Seller, according to the Law of Agency.

Other Paperwork to Supply, if requested:

1. Buyer/Tenant Representation Form
2. Purchase Contract
3. Buyer Closing Cost Worksheet
4. List of Recommended Vendors (lenders, title company, surveyor, painter, handyman)
5. Homestead Exemption Application
6. Sample HUD 1 Statement
7. Title Policy Price Chart
8. Flow Chart
9. Fees Related to Home Purchase
10. Buyer Client vs. Buyer Customer
11. Information About Brokerage Services (Please print, sign to acknowledge receipt, return)
12. 5 Reasons to Sign a Buyer Representation Agreement
13. Broker Notice to Buyer
14. Buyer Walk Through and Acceptance Form (Please print and submit after Final Walk Through)
15. Final Walk Through Checklist (Please print and bring to Final Walk Through)
16. What To Ask a Buyer's Agent
17. Why Work with an Accredited Buyers Representative

Definitions (In easy to understand terms. For more in depth meanings, Google it!)

Amendment- A piece of paper both sides sign when any change is being made to the original contract.

Seller's Disclosure- A 5 page report detailing everything the seller knows that is wrong with the house

Subdivision Documents- Rules and restrictive covenants the HOA has for the residents who live in that subdivision.

Resale Certificate- Sometimes requested by the buyer. A certificate showing the house is in good standing with the HOA.

Elevation Certificate- A certificate that shows how high a house sits on the land (to tell if it's in danger of flooding or not)

Earnest Money- Money given when a contract is signed (often 1% of the purchase price) from the buyer to the seller, to show serious intention of buying the property. Instead of the check being given to the seller, it is made out to a neutral third party, the title company, who holds it until closing. At closing, it credits back to the buyer. If the buyer defaults on the contract, the title company will release it to the seller (everyone has to sign off for it, though).

Option Money- Money give from the buyer to the seller for the right to cancel for any reason during the first 7-10 days of the contract (10 is better if you're the buyer so you don't have to rush). This period of time is called the option period. If the buyer cancels the contract for any reason during the option period, the earnest money will come back to you. The option money will not come back to you, unless you make it to closing. Then, it will credit back to you (if you have a good realtor- they'll check the right box for it to come back to you. ☺)

HOA Transfer Fee- A fee a subdivision will charge for selling your property and transferring it into someone else's name.

Concession in Lieu of Repairs- Money a seller will give to the buyer (at closing) instead of fixing/ repairing something defective. The buyer is supposed to use that money to fix it themselves after closing.

Closing Cost Concession- Money a seller will give to the buyer to help offset the buyer's closing costs.

BATNA- Best alternative to negotiated agreement. This is your second best plan, your Plan B. If you can't get what you want from the other side, always have a BATNA in mind.

Home Warranty- A product offered by the seller to the buyer from a home warranty company (such as Home Warranty of America, BPG, Old Republic, American Home Shield). Most of the major items in the house will be covered by the home warranty for the first year after closing.

Title Policy- An insurance policy issued by a title company that guarantees the title of house is free and clear of any liens.

Survey- A drawing of the house and how it sits on the land.

Inspection- A thorough look by a license inspector, paid for by the buyer in order to understand the flaws of the house before proceeding with the purchase.

Appraisal- A report of value required by the bank so that the bank knows how much the house is worth, therefore how much of a loan to lend the buyer.

Homeowner's Insurance (aka Hazard Insurance)- Required by the bank because the bank has a big interest in the house (if you borrow 95% of the purchase price, the bank has a 95% interest in your house). In case the house burns down, the bank wants to know their asset is protected. They will require the loan holder to purchase homeowner's insurance. This insurance will cover major damage to the house caused by hurricane or fire, etc. There is a deductible that has to be met before they will pay out.

Flood Insurance- If the house is located in the 100 year flood plain or near the water, the lender will require that you buy flood insurance in addition to homeowner's insurance, again, to protect their asset.

HUD 1 (aka Settlement Statement)- The title company will make a settlement statement the day before closing so that both sides can see all their costs and fees.

Terminate- To cancel the contract.

Third Party Financing- Getting a loan

Main Parties: Buyer, Buyer's Agent, Seller, Seller's Agent, Lender, Title Company, Insurance Company, Surveyor, Appraiser, Inspector