

A Home-Buying Guide

MHALICI AND ASSOCIATES

"KNOWLEDGE IS POWER"

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About Mehmet "Matt" Halici

As certified Buyer Agents, I offer these advantages:

- **Access to thousand of homes for sale**
I can save you time by locating the ones that suits your needs
- **Correctly written contracts**
I am skilled technical writer of real estate contracts. A poorly written contract wastes time and is not enforceable.
- **Skilled negotiations on your behalf**
I am trained and skilled negotiator and will apply my experience on your behalf to get the best possible transaction based on your needs.
- **Advice and counseling to protect your interests**
Price
Deposits
Financing terms, loan contingencies
Personal property
Condition of property inspections
Title insurance
Drafting counter offers
- **Explain the seller's counter offers**
Disclosure for agency, RESPA, FIRPTA
Time for acceptance and method for acceptance
Special requirements
As-is claims
Possession
Damages
Surveys
Home warranties
- **From sale to settlement**
Selecting the home inspector
The inspection process
Selecting the attorney
Selecting the lender
Making application and following up
All the other details as they arise
Negotiating any problems
Going to the settlement !!!

Since 1969, Weichert, Realtors has been perfecting a smarter approach to real estate focused on the needs, concerns, hopes and dreams of our customers.

Weichert has grown from a single office into the nation's leading provider of homeownership services* by putting customers first. Today, we continue to refine our approach in response to the changing needs and concerns of people like you.

To begin with, we've turned Weichert sales offices into true "one-stop" destinations for the full range of real estate products and services. Now, there's always an expert on hand to offer solutions and advice on mortgages, insurance, and all the details of moving. Instead of calling an 800 number, you can meet face to face with one of these Weichert Gold Services Managers.

In other words, we go beyond "full service." No one can match the Weichert Open House program or our promise of immediate live answers to web site requests. But, in the end, it's the neighborhood knowledge and personal attention from our friendly Sales Associates that ensure your problems will be resolved and your dreams realized.

Weichert has more than 16,800 sales associates in over 360 company-owned and franchised sales offices in key markets throughout the U.S. A family of full-service real estate and financial services companies, Weichert helps customers buy and sell both residential and commercial real estate, and streamlines the delivery of mortgages and home and title insurance.

*Source: Real Trends 2004 survey of leading brokers; includes total 2003 volume for real estate sales, mortgage, insurance, and title.

A Warm Welcome from Jim Weichert

For most people the purchase of a home represents much more than a good financial investment. Buying a home is the realization of a dream - a dream tied to a vision of the future that is filled with optimism and joy.

From the day our first office opened in 1969, we have built our services around helping people achieve their visions of the future smoothly and with as little stress as possible. You will see that reflected in the many genuinely helpful services we have developed and in the very attentive way Weichert Sales Associates will work with you. Keep in mind, too, that Weichert, Realtors is a true "full service" real estate company. That means your Weichert Sales Associate will be there to guide you through the entire process, from mortgage pre-approval to the details of moving in.

So welcome to weichert.com. It's your convenient portal to our listings, our services, and our people. I wish you every success in your home search -- and a joyous fulfillment of your dreams for the future.

Jim Weichert
Founder and president

The home buying process

▶ **Home Buyer**

▶ **Select Agent**

▶ **Determine Purchasing Power:**

Understand Buying Process

Select Areas

Determine Needs & Desires

▶ **Preview Homes**

▶ **Make Offer**

▶ **Contingencies:**

Home Inspection

Financing

Other contingencies

▶ **Contract Acceptance**

▶ **Mortgage Application**

Credit & Appraisal

▶ **Home Inspection**

▶ **Call Settlement Company**

▶ **Mortgage Approval**

▶ **Buyer Arranges Termite Inspection**

▶ **Contact Utility Companies**

▶ **Final Walk-through**

▶ **Settlement**

▶ **MOVE**

What you should know about Agency

Who Represents Whom?

One of the most common misconceptions that are shared by a large number of home buyers is that when working with a Real Estate Agent, he or she will "automatically" represent you as a buyer. As we will discuss, unless this is specifically disclosed in writing, in all probability the Agent will be representing the *seller*.

The traditional relationship has been that a Real Estate Agent's primary loyalty was to the seller of the property. This relationship was in effect whether the Agent was the listing agent or working with a buyer. This situation caused many home buyers to be confused: they assumed that the Agent that had been driving them around showing them houses for the last 3 weeks was representing them. In reality, the Agent was representing the owners of the houses they saw, and was bound to reveal to those owners any information he or she knew about the buyers.

Buyer's Agency, which is almost universally available now, changed all that. The buyer now has a choice in representation: the Agent with whom they are working can continue to represent the seller in the transaction, or the Agent could represent them as buyers. The buyer is now able to compete on a more level playing field.

Although there are state to state variations (please verify the situation in your particular locality), the following is a basic summary of the types of Agency, and who the Agent represents.

SELLER AGENCY: The "default" situation. Unless disclosed to the contrary, all Agents involved in a Real Estate transaction (and their Brokers--with whom a listing agreement is actually with) represent, and owe their allegiance, to the seller.

BUYER AGENCY: When an Agent represents the buyer, that Agent "rejects" the implicit seller agency and thus owes loyalty to the buyer.

DUAL AGENCY: This occurs when 2 Agents--or the same Agent--working for the same Broker each represent a buyer and a seller in a transaction. This situation must be disclosed to both the buyer and the seller. Privileged information (e.g. the price that a buyer will pay or a seller will sell at) cannot be disclosed to the other party without the express permission of that party.

What it means to you...

If you leave the agency question "as-is", your Agent will automatically represent the seller in the transaction (although it is very likely that they will suggest Buyer Agency.) If the Agent does not represent the seller, then you can opt for Buyer Agency. If the house in which you are interested is listed by the same Broker as your Agent, then you have an automatic Dual Agency situation. To sum it up, if you want full representation, insist on Buyer Agency.

Real estate is the most important investment. Don't trust just anyone.

When you work with me you get:

- **A much wider choice of properties--every home that is listed with any Real Estate Agency in MRIS.com which is only for realtors**
- **I have over twenty years of experience in real estate and real estate negotiations.**
- **Access to thousand of homes for sale**
- **Advice and counseling to protect your interests**
- **Skilled negotiations on your behalf**
- **Correctly written contracts**
- **Explain the seller's counter offers**
- **From sale to settlement**

Why should you have a Buyer's Agent?

If you are currently working with a Real Estate Agent who has not explained to you how Buyers Agency works, ask yourself "why not?" A Buyer's Agent is required, by law, to help you purchase a house at a price that is right for you and then represent your interests in every step of the home buying process. A Seller's Agent is required, by law, to get someone to buy the house for as much money as possible as quickly as possible and then ensure the sellers' interests are represented throughout the process. If your agent has not entered into a Buyers Agency agreement with you, she/he is not only allowed, but OBLIGATED to work for the Seller!

Your Buyer's Agent is a professional Real Estate Agent. As Real Estate Agents, they are trained and licensed in real estate law. They have training and experience in buying and selling real estate gained from the company they work with. They know the tricks-of-the-trade, marketing techniques and common sales methods. In short, Buyer's Agents are considered experts in their field. The Sellers have experts working for them and pay them handsomely to do so. Going to buy a house without having a Buyer's Agent on your side is like being in court without a lawyer and representing yourself while the person suing you has an entire law firm working for them! You are at a disadvantage.

Why use a Real Estate Agent?

You could fix your car on your own. Surely many people know how to change the oil. But how many people know how to fix a transmission timing belt or replace a carburetor? And even if you did know how to do those things, do you have the tools to do the job? And most importantly, do you have the time? The answer to these questions is usually no. The vast majority of us would prefer to pay an expert to do the job, does it right, and in a much shorter amount of time than if we did the job ourselves.

In terms of buying or selling a home, many people attempt to go it alone. The thought is that they will save money by not paying an agent.

In regards to Buyer's Agents, we already discussed that having a Buyer's Agent costs the buyer nothing. If there is no Buyer's Agent, the Seller's Agent and his/her company get to keep the entire commission. Your Buyer's Agent is a trained, licensed, experienced Real Estate Agent who knows the tricks-of-the-trade, the common sales methods, and the not-so-common marketing techniques used by Seller's Agents to sell houses. Having a professional like that who is, by definition, legally obligated to represent you and your best interests is invaluable. And it costs you nothing.

Seller's however, have to make the same decision as in the car example above. Most people who try to sell their home on their own as "For Sale by Owner", a.k.a.

FSBO (commonly pronounced "fiz-boe"), find that they simply don't have the time nor money to advertise, to stay home on the weekends to hold open houses, or get home earlier in the evening every single night to answer the phone and show the house to anyone who wants to see it whenever they want to see it.

The vast majority of FSBO's, about 72%, according to the National Association of Realtors, end up listing their house with a Seller's Agent. They figure that a sold home minus the commission is more money than not selling the home at all. Plus, the fact is that a qualified and aggressive Seller's Agent can usually sell the house for more money, even minus the commission they're paid, than a FSBO would save selling it on their own! Aggressive Seller's Agents who are trying to get someone to buy that home for as much money as possible as quickly as possible are doing their job. They are working in the seller's best interests. Remember, the name you see on the "For Sale" sign, next to a picture of a house online, or under an ad in the paper or magazine is almost always the Seller's Agent and is legally obligated to answer your questions as such.

What to look for in an Agent?

- ✓ An understanding of your needs.
- ✓ A willingness to work with you until your needs are fulfilled.
- ✓ A sense of professionalism.
- ✓ Someone who is dedicated to their profession.
- ✓ A familiarity with the area in which you have an interest.
- ✓ A familiarity with the price range in which you have an interest.
- ✓ Professional designations: for example, GRI--Graduate of the REALTORS® Institute, or CRS--Certified Residential Specialist.
- ✓ Strong references from previous buyers.

Questions to ask a prospective Agent

- ? How long have you been in Real Estate?
- ? Are you a full time agent?
- ? Are you familiar with the area in which we want to look?
- ? How many home sales did you participate in last year?
- ? What is the average sold price of the homes you sold last year?
- ? Do you normally work with sellers or buyers?
- ? How many buyers are you presently working with? How many sellers?
- ? Where do you feel your strengths lie?
- ? What 3 buyers that you have worked with can you give me as references?

What you should know about Home Buying

What kind of home do you really want?

Shopping for a home can be one of the most enjoyable, exhilarating, and happy experiences in life. It can be the most difficult one at times. I will be guiding and coaching you a regular basis whenever I find a home that fits your criteria. I can show you any home on the market anytime, anywhere.

I will have ongoing discussions with you to determine exactly the kind of home you are seeking. Here are some questions to ponder as you begin to define the kind of home you really want:

1. What is more important to you, the quality and size of the home or the location and attributes of the property?
2. What style or type of home interests you more, contemporary or historic, ranch or colonial?
3. How many bedrooms and baths do you absolutely need?
4. Would you consider buying a home that is in need of some renovation or expansion?
5. What can you comfortably afford?

Take notes on what you like most about the homes you saw:

HOME: _____ PRICE: _____

HOME: _____ PRICE: _____

HOME: _____ PRICE: _____

10 biggest home-buying mistakes

Based on 25 years of home-building experience for 30,000 people, Weekly offers these 10 biggest mistakes in home buying:

Not doing your homework. Knowledge is power. Tremendous information is available on the Internet. There is no excuse for entering the market unprepared.

Trying to make a shrewd investment. People need to buy based on what fits their family. Don't try to guess what will happen to the market.

Choosing a poor location. Even within a neighborhood, location matters. Is it on the busiest street? Is there a shopping center out the back window?

Overlooking an inferior floor plan for an attractive exterior. It may have gorgeous curb appeal, but you don't live on the lawn. No matter how attractive the exterior, you need a livable home.

Overlooking how the house will function for your family. How do you really live? Do you really need a formal dining room and living room? Would you be happier with an eat-in kitchen and a great room and a den to use as a home office? The house only needs to fit one family -- yours.

Not having the home properly inspected in a resale. This is not the time for surprises. Get an inspection from a qualified, respected professional.

Not checking out the builder's reputation on a new home. Talk to three or four people who live in the builder's homes and see what they have to say. If one builder did all the houses in a neighborhood, talk to the residents and get their input. (It's also a great way to see what your neighbors would be like.)

Not getting what you want because you're impatient. This is a big decision. You need time. Impatient decisions can lead to mistakes.

Waiting for a better market and interest rates. If you can afford a home and you don't make that purchase, you'll lose the benefit of tax deductions, building home equity and the appreciation in value.

What is involved in making an offer?

Once you have looked at a number of houses and have found the house that meets your needs and dreams, you will probably find yourself getting emotionally involved. You may imagine moving your furniture in, planting flowers and hosting your first big holiday party. But try not to get attached prematurely. There are number of steps you must take before you are holding the keys in your hand, and you need to think clearly and objectively at this point so that the offer you make is a realistic one.

What should I offer? This is the question. There are number of factors that will affect the offer you make. Supply and demand, the condition of the home, how long the house has been on the market, and your personal circumstances with regard to how soon you need to close on a home all come into play when making an offer. In an active market, you are likely to lose out by making a low bid. If multiple bids are anticipated, it is wise to go with your "best offer". Your Agent will present your offer in writing. To show that your intentions are serious, it is customary to submit the offer with a deposit. If your offer is accepted, your deposit is placed in a trust account. If not, deposit will be returned to you. If the seller counter offers, you may agree to that price and terms, or make your own counter offer. Once you and the seller agree, both sides initial the final price and terms shown on the agreement of sale.

The final contract will specify the items in the home included or excluded in the sale, as well as any additional provisions either side wants to have as part of the contract. Dates for contingencies such as obtaining financing, are also filled in before the contract is signed.

As part of your sales contract, you will agree to obtain financing within a specified period. If you are unable to secure financing, the contract becomes null and void.

It is standard for the buyer to pay for a comprehensive home inspection. Accompanying the home inspector is recommended for learning all about the house, including such basics as the location of the main water shut-off and electrical distribution boxes.

Mortgage lenders typically require termite inspection. The responsibility for any repairs based in inspection is subject to negotiations between buyer and seller.

What you should know about Mortgage

What is a mortgage?

A mortgage is a long-term loan that a borrower obtains from a bank, thrift, independent mortgage broker, online lender or even the property seller. The house and the land it sits on serve as collateral for the loan. The borrower signs documents at closing time giving the lender a lien against the property. If that borrower doesn't make payments as agreed, the lender can take the home through foreclosure.

Pay out over time

Because mortgages are such large loans, consumers pay them off over long periods -- usually 15 to 30 years. Their monthly payments gradually whittle away the principal balance.

A monthly mortgage payment is sometimes called a **PITI payment**. That's because each one covers a portion of the following four costs:

Principal -- the loan balance

Interest -- interest owed on that balance

Real estate taxes -- taxes assessed by different government agencies to pay for school construction, fire department service, etc.

Property insurance -- insurance coverage against theft, fire, hurricanes and other disasters

Borrowers can choose to pay their real estate taxes and insurance in lump sums when they come due, rather than in monthly installments to their escrow accounts. Depending on the kind of mortgage a borrower has, the monthly payment may also include a separate levy for private mortgage insurance ([PMI](#)) or government-backed mortgage insurance premiums.

The breakdown of each payment (the amount that goes toward principal, interest, etc.) changes over time because mortgages are based on a repayment formula called amortization. That's a fancy term meaning the lender spreads the interest you owe on the mortgage over hundreds of payments so that the overall loan is as affordable as possible.

How does amortization work? Here's how the principal and interest change over the life of a loan:

Here's how the principal and interest change over the life of a loan (30-year, 6.0% fixed-rate mortgage of \$500,000)					
Payment number	Principal balance	Payment amount	Interest paid	Principal applied	New balance
1	\$500,000.00	\$2,997.75	\$2,500.00	\$497.75	\$499,501.25
60	\$465,271.78	\$2,997.75	\$2,326.36	\$671.39	\$464,600.39
120	\$418,428.62	\$2,997.75	\$2,092.14	\$905.61	\$417,523.02
240	\$270,017.93	\$2,997.75	\$1,350.09	\$1,647.66	\$268,370.27
359	\$5,950.84	\$2,997.75	\$44.52	\$2,953.23	\$2,982.84

Source: Bankrate.com on January 25, 2008

Mortgage escrow accounts exist to help borrowers accumulate money for property taxes and homeowners' policy premiums a little at a time. Escrow can help avoid financial surprises such as missed payments to the government, but foul-ups can happen and borrowers need to keep a close eye on what money is going where.

As taxes and insurance policy bills change, so will escrow payments. Most lenders run an analysis program each year to see whether the amount a borrower contributed over the course of the past 12 months was enough to cover all the tax and insurance bills due during that period. Customers receive a transcript of the results showing what was paid out and what was collected.

Which mortgage option is better for you: adjustable or fixed?

There are several different types of mortgages. The most common are the Fixed Rate Mortgage (FRM) and the Adjustable Rate Mortgage (ARM). The most common mortgage sought by first time home buyers is a Fixed Rate, 30 year mortgage. To help you understand each type of mortgage, we've given a brief explanation for comparison below.

Fixed Rate - 30 Years

This is the most commonly used mortgage plan. Your monthly payments are lower than they would be on a shorter (15 year FRM) term loan. The interest rate is locked in when you secure the mortgage and does not change over the life of the loan.

Advantages:

- Fixed monthly payments over the life of the mortgage.
- Longer life, lower payments.
- Fixed interest rate over the life of the mortgage.
- Can refinance if rates go down

Disadvantages:

- Interest rate higher than 15 year FRM and VRM.
- Interest rate does not change if rates go down.
- Total interest paid over the life of the loan is much higher than a shorter term mortgage.

Fixed Rate - 15 Years

Also becoming very common, the 15 year mortgage results in higher monthly payments, but a lower interest rate.

Advantages:

- Fixed monthly payments over the life of the mortgage.
- Fixed interest rate over the life of the mortgage.
- Total interest paid over the life of the mortgage is much lower than that of a 30 year FRM.

Disadvantages:

- Shorter life, higher payments.
- Interest rate does not change if rates go down.
- Smaller tax deduction because less interest is paid.

Adjustable Rate Mortgage (ARM)

An adjustable rate mortgage has a fixed interest rate at the time the mortgage is secured. At the start of the loan, the payment is also fixed. Neither the interest rate, nor the payment are fixed for the life of the mortgage, however. After the initial fixed period, both the interest rate and the monthly payments are adjusted to reflect the then current market interest rates. The calculations to determine the adjustment is at the discretion of the lender, each using their own formula and index.

Advantages:

Lower monthly payment at the beginning of the loan.
Rates and payments may go down if rates go down.
A borrower may qualify for a larger loan.

Disadvantages:

Higher risk.
Payments may rise as rates rise.

Adjustable-rate mortgages can be very tempting to home buyers, yet they carry a great deal of uncertainty. Fixed-rate mortgages offer rate and payment security, but they can be more expensive. Here are some pros and cons of ARMs and fixed-rate mortgages:

All of these things should factor into your decision between a fixed-rate mortgage and an adjustable one. But there are other important questions to answer when deciding which loan is better for you:

1. How long do you plan on staying in the home?

If you're only going to be living in the house a few years, it would make sense to take the lower-rate ARM, especially if you can get a reasonably priced 3/1 or 5/1 ARM. Your payment and rate will be low and you can build up more savings for a bigger home down the road. Plus, you'll never be exposed to huge rate adjustments because you'll be moving out before the adjustable rate period begins.

2. How frequently does the ARM adjust, and when is the adjustment made?

After the initial fixed period, most ARMs adjust every year on the anniversary of the mortgage. The new rate is actually set about 45 days before the anniversary, based on the index at that time. But some adjust as frequently as every month. If that's too much volatility for you, go with a fixed-rate mortgage.

3. What's the interest rate environment like?

When rates are relatively high, ARMs make sense because their lower initial rates allow borrowers to still reap the benefits of homeownership. The chances are fairly good that rates will fall down the road too, meaning borrowers will have a decent chance of getting lower payments even if they don't refinance. When rates are

relatively low, however, fixed-rate mortgages make more sense. After all, 7 percent is a great rate to borrow money at for 30 years!

4. Could you still afford your monthly payment if interest rates rise significantly?

On a \$100,000, 1-year adjustable-rate mortgage with 2/6 caps, your 5.75 percent ARM could end up at 11.75 percent.

Arranging the financing...

The Mortgage Process

The process of obtaining a mortgage can be broken down into 5 distinct steps. This section provides a very brief overview of those steps.

1. Deciding Which Loan Type Is Right For You:

There are nearly as many loan types as there are types of buyers. We will only cover the very basic types here.

Fixed Rate: Interest rate does not change over the life of the loan.

Adjustable Rate: Interest rate changes with the general interest rates.

Government Guaranteed: These usually provide a slightly lower interest rate and are guaranteed by a government agency such as the FHA and the VA.

Remember when choosing a mortgage type, to take into consideration that while some loans may carry very low interest rates at the beginning, but may not be the best choice over the term of the loan. Choose carefully and talk to your lender.

2. Apply For A Loan:

Applying for a loan can either be done before you have found your home, or after you've submitted a purchase offer. Pre-approval gives you the added benefit of knowing exactly how much you can spend and can help you avoid the common pitfall of looking at homes that are beyond your means. There is also the added advantage of increasing the seller's confidence that your loan will in fact be approved if you have pre-approval. This may make the present owner of your dream home somewhat more willing to accept your purchase offer and may speed up the entire loan process.

3. Loan Processing:

Upon completing and submitting your paperwork, several things happen almost immediately. An appraisal of the property to ensure that the buying price is within range of the property's value. Within three days, you will receive a packet of mortgage documents. This packet will contain items that will require your careful attention and understanding. If you need help with any of these papers, contact your lender, your real estate agent, or your attorney. It's important to fully understand everything pertaining to your mortgage. As soon as you have applied for the mortgage, you should find a licensed settlement agent, possibly your attorney, to represent you at the closing of your loan.

4. Loan Approval:

If you haven't already been pre-approved, an underwriter will analyze your information, look at your income and expenses, your savings, your credit rating, and the property itself. The decision will be made to either approve or deny your application, generally within just a few days. If the loan is approved, a closing or settlement date will be set.

5. Closing or Settlement:

This is the moment you've been waiting for. On the appointed date, you, any co-applicants, and your settlement agent, will sit down with the lending institutions representatives. Loan documents will be explained and you will read and sign them. Your settlement agent can assist you by answering any questions you might have about the documents you are signing. The loan amount will then be sent to an escrow account or sent to a closing agent. This varies from state to state. At this point your new home awaits you so start packing and planning.

What is a credit score and what is it designed to do?

A credit score number is often called a FICO score, for Fair, Isaac and Co., the California Company that developed the system upon which it is based.

The score is supposed to distill all the information in your credit report, using a formula to calculate a single number that indicates your credit worthiness.

It's designed to give lenders a fast, accurate prediction of the risk involved in giving you a loan. Lenders have attested to the score's value in streamlining the underwriting process and creating more opportunities for consumers to get mortgages.

Scores range from the 300s to about 900, with the vast majority of folks falling in the 600s and 700s. The higher the score, the better.

Items Needed for a Loan Application

- **INCOME**

Employment information for two full years
Gross monthly income
W-2's (if available)
Proof of pensions, retirement, disability, or Social Security
Proof of income from rentals, investments, etc
Proof of child support or alimony paid/received
Year-to-date pay stub
If self-employed provide 1040 tax Returns for full two years

- **CREDITORS**

Each creditor's name, address, and type of account
Account numbers
Monthly payments and approximate balances
Amount of child care expenses

- **BANKING**

Name and addresses of savings institutions
Account numbers of all accounts
Types of accounts and present balances

- **OTHER DOCUMENTS NEEDED**

List of assets in stocks, bonds, land and etc
Life insurance cash value
Copy of sales contract if applicant is selling a property
Social Security numbers of all applicants
Veterans Certificate of Eligibility & DD14
Cash or check for application fee

- **FROM REAL ESTATE AGENT**

Copy of the sales contract
Copy of listing printout for property to be purchased
Instructions for appraiser to get in to the property

Ready to buy...

10 questions to ask when applying for a mortgage

Knowing what to ask your lender when you're ready to apply for a mortgage will save you lots of money, stress and heartache. Get answers for each of these questions before signing your mortgage application.

1. What is the interest rate on this mortgage?

To know exactly what you'll be paying in interest over the life of the loan, you need to know the rate. This is the most important figure to obtain.

2. How many discount and origination points will I have to pay to get this rate and loan?

Lenders can charge points that lower your interest rate and points that provide no benefit whatsoever to you. Find out how many you'll be expected to pay for the loan and which kind of points they'll be.

3. What closing costs will be charged on this loan, and will you provide the "good faith estimate" of those costs up front?

Mortgages come with fees for various services that lenders and other parties involved in the transaction provide. You need to find out what you'll be charged as early as possible. Many experts say that you shouldn't use a lender or broker unless that person will provide a good faith estimate up front.

4. When can I lock in the interest rate and what will it cost me to do so?

The interest rate of the mortgage you're applying for may go up or down between the time you apply and the time you close. That's why you may want to lock in the rate for a specified period, rather than let the rate float until the closing. Be sure to ask the lender if there is any fee for locking in the rate and whether you can also lock in points.

5. Is there a prepayment penalty on this loan?

The prepayment question is most important for loan shoppers with less-than-perfect credit because penalties abound in the subprime lending world. But even conventional borrowers should ask about any prepayment penalties that may apply. In some cases, they can get lower rates by accepting penalties on their loans.

Find out the duration of any penalty period and how the fee would be calculated. Some penalties are 1 percent of the loan amount; others are equal to six months worth of interest. Some apply only when you refinance or reduce the principal

balance of the loan by more than 20 percent; others also will kick in if you sell the house.

6. What is the minimum down payment required for this loan?

Depending on the amount of your down payment and its relation to the price of your home, you might be charged different interest rates or quoted different loan terms. Loans made at high loan-to-value ratios can cost more than loans with larger down payments. Still, customers with good credit who are willing and able to pay private mortgage insurance (PMI) can get conventional loans with down payments that are much smaller than 20 percent.

7. What are the qualifying guidelines for this particular loan?

The qualifying guidelines can relate to your income, employment, assets, liabilities and credit history. Some first-time home buyer programs and government-sponsored loans have easier qualifying guidelines.

8. What documents do I have to provide?

You will need to provide proof of income and assets to get a mortgage loan. Find out what documents will be required in your particular situation by asking your lender.

9. How long will it take to process my application?

This varies from lender to lender. It often depends on how much business your particular lender is doing and how much business the market is seeing as a whole. When borrowers are knocking down doors all over town, underwriting departments back up, appraisals take longer to obtain and other bottlenecks develop. Get a realistic estimate, and use that to figure out how long a rate lock you'll need.

10. What might delay the approval of my loan?

If you provide the lender with complete, accurate information, everything should go smoothly. However, there could be a delay if the lender discovers credit problems, which is why it is critical to get your credit in order.

Your mortgage broker "to-do" list

- Get a description in writing of the exact program being offered. Because many people who go to brokers are getting specialized mortgages that may not be as straightforward as 30-year fixed-rate loans, it's especially important to know what you want and know if that's what you're being offered. That way, you can compare rates, fees and points on an apples-to-apples basis.
- Make sure you get a detailed good-faith estimate and check that against your final bill before closing. Brokers are sometimes paid by both the lenders who underwrite the mortgages and the consumers who get them, and it's important to look at the documents to make sure the broker isn't getting paid too much or double-charging you.
- Rate locks from a broker can be a big trip-up if you're not careful. Get proof in the form of a signed document that the lock has been executed if that's what you want to do. Keep in mind this usually has to take place during business hours for the lock to be effective that day. Missed faxes or other snafus can delay the transaction and leave you with a higher rate if you're not on top of things.
- Think referral, referral, and referral when it's time to find a broker. It's good to have a broker who's nice; it's better to get rates and costs that are reasonable.
- Consider checking to see if your broker or mortgage brokerage has faced state regulatory sanctions in the past. Most states maintain some kind of list of people and companies who have been fined or had their licenses revoked.

Tax Benefits of Home Ownership

Purchasing a home can bring with it income tax benefits that are worthy of consideration when deciding whether to buy a home. Yes, buying a home is a rather large expense, but when you think about the fact that the money you pay out each year in taxes brings little tangible return, while money spent on your home brings the pleasures of ownership plus equity built, you might want to check into the tax benefits of buying. Following is a list and explanation of the typical deductions.

Mortgage Interest

Perhaps the largest deduction for a new homeowner is the interest paid on the mortgage loan. Remember that in the first years of any mortgage, most of the money paid each month (or bi-weekly) applies toward interest. Interest is generally fully deductible.

EXAMPLE:

You've taken out a mortgage of \$500,000 at 6.0% on your new home. You've made payments toward the principal and interest for the full year. Those payments totaled almost \$36,000.00. Of the \$36,000.00, approximately \$30,000.00 went toward interest, and almost \$6,000 went toward the principal. The \$30,000.00 is tax deductible. (Source: Bankrate.com)

To claim the mortgage interest deduction, you must fill out a Schedule a, "Itemized Deductions". You should receive a form 1098 from your lender in January for the tax year prior. The form 1098 contains information needed to take the interest deduction.

Points Paid

Points paid at closing on your new home are deductible if they are considered pre-paid interest. There are certain restrictions involved in the deduction of points. All of the following requirements must be met:

The mortgage loan must be secured by your main home.

Paying points must be the norm for your area.

The points paid must not be more than what is considered normal in the area.

You must use the cash method of accounting.

The mortgage loan must have been used to buy, improve or build your home.

The points must be calculated as a percentage of the loan principal.

The points must be clearly set apart on your settlement statement.

You must have used your own cash (down payment) toward your home purchase in an amount at least equal to the points you were charged.

Property Taxes

Your property taxes are fully deductible on your income tax return. Money held in escrow toward the payment of your taxes is not deductible, but the actual payments from the escrow account toward the property taxes are.

Settlement

Settlement is where the money and deed change hands: you pay the seller and the seller gives you the keys and deeds the property to you.

Before Settlement...

When your settlement attorney receives your contract from your agent, they will:

- Order title abstract and survey
- Review title abstract and survey to determine marketability and insurability
- Contact your lender to schedule settlement and prepare any required documents
- Contact the Seller's lender to obtain payoff information on the existing loan
- Prepare title insurance commitment pursuant to your lenders requirements
- Contact the local taxing authority to verify the amount of property taxes, determine the prorations between Buyer and Seller
- Contact the Homeowner's Association to verify the amount of dues and determine the prorations between Buyer and Seller
- Obtain the lender's loan documents and proceeds check
- Prepares the settlement sheet and any other required documents.

Who Attends Settlement?

Representatives from the settlement company, the real estate agents involved in the transaction you and the sellers will be there to execute the documents. It is settlement attorney's job to collect the funds, have the papers signed and filed at the courthouse, disburse the funds, issue the title policy and resolve whatever issues arise at or after settlement.

How Long Will Settlement Take?

If all goes well, settlement will be completed in about 45 minutes.

What do you do at Settlement?

First, make sure that you have brought certified funds or a bank check for the balance of your down payment and closing costs. You also are required to bring a copy of a homeowner's insurance policy (for fire, theft and other contingencies) and a paid receipt showing one year's coverage. In some cases, the lender will require delivery of this and the termite inspection documentation prior to the settlement. Although the lender will have provided you, the purchaser, with a Good Faith Estimate of Closing as part of the loan application process, your settlement attorney will also calculate for you approximately what you owe. The settlement attorney will then go through all the settlement documents with you, explaining their purpose. You will sign all the documents, give us our check, and receive the keys to your new home.

The following checklist includes some of the items in the closing costs:

Loan origination fee

Loan discounts or points
Appraisal fee
Credit report fee
Underwriting and document preparation fees
Mortgage insurance fee
Assumption fee
Settlement or closing fee
Abstract or title fee
Title examination
Title insurance binder
Survey fee
Termite inspection fee
Tax service fee
Transfer tax
Recordation tax
Escrow for taxes and insurance

What to Expect after Settlement

In order to complete the process of settlement, the settlement attorney will:

- Record the deed, deed of trust, or assumption documents in the land records at the county courthouse
- Audit the disbursement sheet
- Disburse all proceeds
- Issue the title insurance policy
- Send the lender the signed packet of all signed documents
- Pay off the Seller's lender(s), if any, and obtain and record a release of the Seller's deed(s) of trust
- Disburse any funds required to be escrowed at closing.

Within ten weeks you will receive your original recorded deed and owner's title insurance policy from the settlement company. Keep your settlement statement in a safe place.

What is Title?

When a property is sold or refinanced, the lender and/or buyer need a preliminary title report to see exactly what is against the subject property. Items on a preliminary title report will show:

1. Taxes on the subject property, amount owed, amount paid and assessors parcel number
2. Easements of record, if any
3. Restrictions on subject property, if any
4. Liens and/or judgements of record, if any
5. Exact vesting of owner of record.

When the sale or loan of the subject property is final, and the title company has recorded the necessary documents in order to close escrow, they then issue a policy of title insurance to the new lender and/or buyer showing clear title to the subject property.

What is Title Insurance?

"Title" is the ownership in real property. It means that you have the legal right to possess, occupy, peacefully enjoy, and sell your property without interference from others subject only to restrictions imposed by governmental authorities or previous owners. In most cases, title is transferred by deed which is recorded in the land records of the county in which the property is located. Generally, when property is sold, an attorney for the Buyer or title examiner goes to the record room and searches the land records for any title defects. A title defect is anything in the entire history of ownership of real estate which may encumber the owner's rights under the title. A title defect may cause the owner of real property to lose all or part of his land to a superior ownership interest or claim of another. This is the type of loss against which Title insurance protects. In short, if you own a title insurance policy, the title insurance company will defend you without cost, against an attack or claim upon your ownership interest in your property as insured and you will be protected against financial loss caused by a title defect. The title insurance premium is paid one time at closing and coverage extends to you for your protection as long as you own the property and even thereafter in some cases.

Important Reasons Why You Should Have Title Insurance:

- Forgery
- Fraud in connection with execution of documents
- Undue influence on a grantor or executer
- False personation by those purporting to be owners of the property
- Incorrect representation of marital status of grantors
- Undisclosed or missing heirs
- Wills not properly probated
- Mistaken interpretation of grantors
- Conveyance by a minor
- Birth of heirs subsequent to date of will
- Inadequate surveys
- Incorrect legal descriptions
- Non-delivery of deed
- Unsatisfied claims not shown on record
- Deeds executed under expired or false powers of attorney
- Confusion due to similar or identical names
- Dower or courtesy rights of ex-spouses of former owners
- Clerical errors in recording legal documents
- Delivery of deeds after death of grantor

What is a Home Inspection?

A home inspection is a thorough visual examination of the home and property.

The process usually takes two to three hours, during which time the house is examined from the ground up. The inspection includes observation and, when appropriate, operation of the plumbing, heating, air conditioning, electrical, and appliance systems, as well as structural components: roof, foundation, basement, exterior and interior walls, chimney, doors, and windows.

When conducted by a professional, a home inspection covers about 1,000 checkpoints in approximately 400 items around the home.

Findings should be provided to you in the form of a comprehensive report. It is vital that such a report include an objective evaluation of the condition the home, clearly relating existing defects and indicating potential problems.

WHAT A HOME INSPECTION IS NOT...

A home inspection is not an appraisal and vice versa.

An appraisal is the formal process of estimating a property's value as it relates to a mortgage loan or mortgage insurance. It does not itemize defects or reflect potential problems in the home. Even an FHA appraisal currently does not attest to the condition of a home. In fact, the U.S. Department of Housing and Urban Development encourages home buyers to use private inspection services, and authorizes that closing costs may include inspection fees of up to \$200.

A home inspection report is not a warranty.

Because a home inspection is a visual examination of the home and operating systems, it is not technically exhaustive. There is no assurance, expressed or implied, that equipment will not break down at some future date. However, such protection is available when a home inspection is complemented by a home warranty. When the services are used in conjunction with one another, a home warranty covers the items that were serviceable at the time of the inspection and subsequently fail due to normal wear and tear (consult your real estate agent about the availability of a home warranty).

A home inspection does not detect every conceivable flaw.

It is an inspection of those areas and items that can be seen. Home inspectors cannot see through foundations, floors or walls, and cannot inspect areas or items that are inaccessible.

Buying a home is largely an emotional experience. Sometimes it's love at first sight. But often love is blind, and many buyers learn too late of such unseen conditions as cracked foundations, deteriorated plumbing, worn out heating systems, or dangerous wiring.

A professional home inspection is your best defense against pitfalls and their consequences, such as:

Costly repairs.
Inconvenience.
Animosity.
Disappointment

You may have some knowledge of construction, or a friend or relative may have a background in plumbing or carpentry, but there is no substitute for the objective eye of a skilled home inspector who knows where to look, what to look for, and how to evaluate hundreds of key points throughout the property. Unlike the home buyer whose observations are likely to be partial, the home inspector performs his/her role with an unbiased attitude.

Keep in mind, a home purchase is one of the largest long-term investments of your life. As a result, you need to know as much as possible about your prospective purchase. By identifying existing or potential areas of concern, the inspection report will help secure your investment, avoid post-closing surprises, and provide you with peace of mind. An insightful report is fundamental to making the right buying decision.

WHEN TO ARRANGE A HOME INSPECTION

As soon as you become serious about the purchase of a home, you should consider a professional inspection. When you come to a decision to purchase a particular house, have a protective clause into the purchase agreement which provides you with the right to have a home inspection conduct a complete general home inspection.

PLAN TO BE THERE

It is important that you, as the home buyer, be present during the two to three hour inspection. By accompanying the inspector you will gain additional insight.

- See first hand the condition of each key component throughout the house and property so you will have a better understanding of your house and of the inspection report.
- Alleviate concerns about findings which, on paper, may seem distressing but in fact may be superficial. For example, the inspector might explain

that an alarming noise coming from an appliance can be quieted by some lubricant; that an unsightly column needs only a coat of paint, or that the problem that caused a water spot has previously been corrected.

- Learn about the operation of your new home; how the heating system works, how to control pilot lights, how to turn on various appliances and components, where

shutoffs are to save time and avoid frustration. The inspector can point out maintenance needs and procedures and explain how and when to check items needing periodic monitoring.

Have all of your questions and concerns addressed immediately as they arise.

Prior to the inspection, prepare a list of questions or concerns about the property. Relate these to the inspection company in advance to ensure that such matters will be properly addressed and that any special arrangements can be made if necessary. Bring your list to the inspection.

Beyond Home Inspection

Extensive as it is, a home inspection is not all inclusive. Depending on your level of concern and the location of the house, you may want to consider the following optional services which generally can be performed in conjunction with the home inspection:

Radon Testing

According to the U.S. Environmental Protection Agency (EPA), radon gas is the second leading cause of lung cancer in the United States. The radioactive gas, commonly found in the soil, has become a major health concern for home buyers. Make sure the inspector is familiar with EPA protocols and uses only approved equipment.

Water Analysis

Some 84% of Americans surveyed in a Harris poll believe their water supply at home is polluted and, according to the EPA, nearly 70% are concerned specifically about the quality of their drinking water. Some home inspection companies now provide water quality analysis, but it is important that they utilize only laboratories certified by the EPA or the Health Department. It is advisable to test for lead, bacteria (such as cryptosporidium), and in some rural areas, nitrates and coliforms.

Carbon Monoxide Testing

This "silent killer" may be an issue in homes using fossil fuels (oil and natural gas). Carbon monoxide can be detected only with an analyzer. A clear and working ventilation system minimizes the effects of the gas, so have your inspector check it. For additional protection, install a carbon monoxide detector.

Energy Assessment

One valuable and money saving service offered by leading home inspection

companies is an energy assessment. It determines major areas of energy use and waste while suggesting steps that could save you hundreds of dollars annually in utility bills. It also helps protect the environment.

Termite Inspection

Although a pest inspection is no guarantee that termites will not infest your home in the future, will provide a "wood-destroying pest and dry rot" report on any existing threat. Beware of termite inspectors who are also exterminators and/or provide repairs.

Lead Paint Testing

Under Title X legislation home buyers are entitled to test for the presence of high levels of lead paint in homes built prior to 1978. Lead paint can cause health and developmental problems for small children if the paint is deteriorated or if it is present in dust. Ask your home inspector what options they may offer for testing for lead in paint.

What exactly is the appraisal and how is it done?

You need to view the appraisal through the eyes of the bank. Simply put, the bank wants to know how much the home will sell for in a fair and open market in a timely manner. Why? If you do not make your mortgage payments, the bank may foreclose on you and take ownership of the house. Banks are not in the business of owning houses, so they will turn around and sell the house for fair market value.

The bank wants to make sure the money it would get from the sale of the house is at least the amount of money they lend to you - thereby protecting them from losing any money at all.

Different appraisal companies can use different methods to appraise a home.

Usually, an appraiser will use a combination of methods. The most common method is to do a CMA - Comparable Market Analysis. A CMA lists the general attributes of the house in question such as number of bedrooms, square footage, etc., and compares the house to other houses with similar attributes in the same neighborhood or general area. The appraiser then looks at how much those similar houses have sold for recently. Based on that average, an estimate can be made as to how much your house will sell for in a fair and open market in a timely manner.

The other most common method for determining a home's value is an itemization of inventory within the home. The appraiser will go through a very extensive checklist of attributes including fireplace, tile floors, appliances, hot tubs, etc. Each item has a pre-determined value determined by the licensed appraiser. Add all the items up, and you have the value of the home.

A licensed appraiser will also take into account the general real estate market in a given area. If the market is slow, the value of the home may be lower - and vice versa.

What can I expect at the final walk-through & closing?

The final "walk-through" is typically scheduled within 24 hours of the close/settlement. It gives you one last opportunity to make sure that the home you are purchasing is in the condition that you and the seller mutually agreed to in the sales contract.

Should a problem arise during the walk-through, your agent will contact the seller's representative to let him or her know what the deficiency is. If the seller accepts responsibility, money for the repairs can be allocated to you at the closing/settlement. If the seller does not agree to repairs, your agent will act as the go-between to help you and the seller reach a satisfactory compromise so that the closing is not delayed.

At the closing/settlement, the mortgage and many other documents are signed, adjustments are made for such items as property taxes, the seller is paid, and you are bestowed with the title or deed and the keys to your new home. Be prepared to sign your name over and over again.

From the initial meeting to determine the kind of home you are seeking to the final closing, your agent will help you to step confidently forward by conducting thorough searches, networking, employing old fashioned tenacity, and by coaching and guiding you through the entire journey.

Additional Information You Should Know

Glossary of Real Estate Terms

Annual Percentage Rate (APR): the actual finance charge for a loan, including points and loan fees in addition to the stated interest rate.

Appraisal: an expert judgement of a value or worth of a property.

Associate Broker: same as broker, except that he is not designated as the broker of record and must be affiliated with and under the supervision of a broker.

Assumption of Mortgage: the Buyer assumes liability for an existing mortgage note held by the Seller. This is subject to approval by the lender who must be willing to approve the Buyer and release the Seller.

Assessed Value: the value placed on a property by a municipality for the purpose of levying taxes. It may differ widely from the appraised or market value.

Balloon Payment: a large principal payment due all at once at the end of the some loan terms.

Broker: a real estate professional who has a higher level of training than an agent. A broker is licensed by a jurisdiction to do real estate business, and designated as the broker of record for a firm. A broker may act as any type of real estate agent.

Certificate of Title: the document, Title to land sets out the Crown description of the land, the registered proprietors, registered mortgages, charges, easements and encumbrances.

Commission: the fee payable to a Real Estate Agent by the vendor for selling the house. Usually a percentage of the sale price.

Condominium (Condo): type of real estate ownership where the owner has title to a specific unit and shared interest in common areas.

Contingency: a condition in a contract that must be met for the contract to be binding.

Contract of Sale: an agreement in writing setting out the terms and conditions of the sale of the property.

Conveyancing: the legal process transferring ownership and title to a property.

Deed: legal document that formally conveys ownership of property from Seller to Buyer.

Deposit: an amount of money placed in trust as evidence of commitment to buy. If the purchase is completed, it will be applied towards the purchase price.

Down payment: percentage of at he purchase price that the Buyer must pay in cash and may not borrow from the lender.

Earnest Money Deposit: a large deposit paid when the sales contract is signed before closing.

Equity: the value or property actually owned the homeowner, purchase price plus appreciation, plus improvements, less mortgage and liens.

Escrow: a document is in escrow if it has been delivered to and is held by a third party (the escrow agent) and only to take effect when certain conditions have been met, such as the delivery of a similar document by another party to the contract.

Finance Charges: the total cost, including all fees, points and interest payments a borrower pays to obtain credit.

Fixed Rate Mortgage: interest rates on this type of mortgage remains the same over the life of the loan.

Fixtures and Fittings: items which are affixed to the property and which generally can't be removed without causing damage. They can't be removed when a property is sold unless the contract permits it and the seller must generally make good any damage caused to the premises by the removal.

Hazard Insurance: protection against a possible event which may or may not occur, such as a fire which destroys a property.

Interest: a charge for money advanced or lent by a bank or other lender.

Lien: a security claim on a property until a debt is satisfied.

Mortgage: security claim by a lender against a property until the debt is paid.

Mortgage Term: the length of a loan in years or months.

Mortgagee: a form of security for one who lends the money.

Mortgagor: one borrowing the money.

Multiple Listing Service (MLS) or Metropolitan Regional Information Service (MRIS): a system that provides to its members detailed information about properties for sale.

PITI: principal, interest, taxes, and insurance, forming the basis for monthly mortgage payments.

Point: one percent of the loan principal. Charged in addition to interest and fees.

Prepayment Penalty: a fee paid by a borrower who pays off the loan before its due date.

Principal:

The amount that you borrow from the lender. It is the 'capital' amount upon which interest is payable.

REALTOR: designation given to real estate agent who is a member of a real estate association affiliated with the National Association of REALTORS.

RESPA statement: Real Estate Settlement Procedures Act, a precise breakdown of closing costs for both Buyers and Sellers (Also known as HUD-1 Settlement Statement).

Settlement: Meetings of representatives of all the parties to the transaction to complete the sale, monies are tendered in exchange for relevant documents keys etc and the purchaser can then legally take possession.

Title: document that indicates ownership of a specific property.

Title Insurance: protects against loss resulting from legal defects in the title.

Title Search: a search carried out from the records of the Land Titles Office to determine registered details such as ownership, mortgages, caveats, easements etc.