

Frequently Asked Question's from Today's Buyer's

WHY DO I HAVE TO GET PRE-APPROVED FOR A HOME?

A: It's important on many levels. Paramount to you is that you may qualify for \$1million, but do you want to pay that monthly payment and interest every month for the next 30 years. By sitting down with an expert you can explain to them how much you have set aside in your budget for housing costs along with your long term financial goals. From there the loan officer can give you an amount that fits into what you **want** to pay versus what you **can** pay. This also gives your agent boundaries to maintain so you can now walk you into homes you know fit your financial goals, as well. Now you can view homes with the confidence that you may live **in** your home and not **for** your home.

HOW MUCH SHOULD I SET ASIDE TO PURCHASE MY HOME?

A: There are four main & separate considerations:

- Financing – this amount depends on the type of financing you choose (if any). FHA will allow you to come in with as little as 3.5% down, while other conventional financing may require up to 30% down (percentage based on sale price – 3.5% of \$100K = \$3500 down payment/\$96500 loan amount). This is another reason it's so important to get prequalified prior to beginning your search so you know you are prepared.
- Inspections – these are costs relating to you reviewing condition of the property. Most common on residential purchases in an established community could be \$200-\$400, depending on size. However, if an issue is found and further inspections are needed there would be added fees (i.e. mold, roof, etc.). Appraisals, if you are obtaining financing are on average \$500.
- Closing Costs – these fees will fluctuate up to and average of 4%, depending on how your contract is written and include things like: escrow fees, title insurance, transfer taxes, HOA transfer fees, proration's (property taxes, sewer, trash, HOA dues, etc.).
- After close of escrow – often buyers mistakenly assume payouts are over once escrow is closed. However, this is the time you move in and make your home your own. Moving expenses, new water hoses, planters, paint, pictures, furniture...whatever your heart desires, but be aware you will want to have spending money come moving time.

DO I NEED AN AGENT TO PURCHASE A HOME?

A: Having a real estate agent offers...

- More convenient access to reliable information
- More access to homes that are available to you
- More negotiating power
- More knowledge regarding market, properties, laws & regulation
- More confidence in knowing your agent is held to a higher standard
- More experienced representation to keep the process moving along smoothly
- More experienced in knowing when a 'red flag' pops up
- More experienced in finding solutions that benefit you

WHAT IS THE PROCESS OF BUYING A HOME USING FINANCING?

A: When you purchase a home with financing, you are purchasing two things: the home, and the money to pay for the home. Your real estate agent walks you everything that has to do with the home, and your

loan officer walks you through everything that has to do with money to pay for the home. Your agent and your lender will work in tandem to support you in reaching your goals.

WHAT SHOULD I EXPECT WHEN WORKING WITH AN AGENT?

A: Your agent will be your tour guide. The process looks a little like this:

1. Performs all the research based on your criteria.
2. Schedules appointments for showings.
3. Accompanies you to view homes, areas, schools, conveniences, etc. to give you a good understanding of your potential lifestyle.
4. Runs comparable sales to confirm the market value before placing an offer.
5. Draw up the paperwork for the offer to present to listing agent.
6. Negotiates on your behalf, per your guidance.
7. Facilitates opening escrow, distributing paperwork and information to the appropriate parties.
8. Coordinates inspections, home warranties, HOA paperwork, escrow appointments.
9. Monitors status of the transaction between buyer, seller's agent, lender, inspections, repairs, appraisals, and escrow from start to finish to ensure a smooth and timely closing.
10. Delivers keys, copies, and closing packages to you after closing.
11. Is available to support you after closing.

WHAT SHOULD I EXPECT WHEN WORKING WITH MY LENDER?

A: Your lender will be your loan guide. The process looks a little like this:

1. Meet initially with the lender to see how much you qualify for to purchase a home.
2. Discuss your budget to better understand how much of that money you actually want to spend while keeping your expenses within your comfort zone.
3. You will fill out an application and provide your proof of income, bank statements, tax returns, photo identification, and any additional information the lender may deem necessary.
4. Once you receive your pre-approval letter, you may pursue finding the home that fits.
5. After getting your offer accepted, your agent will forward the paperwork to your lender who will in turn begin processing your loan.
6. An appraisal will be ordered and paid for up front.
7. The lender may ask for additional documentation to cover any lingering questions they have regarding your application.
8. When the appraisal comes back the file will be sent to another department called 'underwriting' for review and, providing all documentation is satisfactory, the underwriter will sign off.
9. Final closing documents will be ordered and sent to escrow.
10. An appointment will be made for you at escrow to sign your final loan documents and escrow documents.
11. Usually the next day the bank will send the funds to escrow and escrow will record with the county the home in your name

****Note:** This does not always go exactly as planned so be prepared to be flexible.

SHOULD I BUY A HOME WARRANTY?

A: Home warranty minimizes expenses that may come up when mechanical systems fail in the home. New homes usually come with their own warranty. However, older homes can face a number of issues that often become expensive. When you have a warranty, you pay the deductible (usually \$55-\$75) and the warranty pays for those items covered that can run into the thousands. However, some homeowners purchase with the intent of replacing many or all mechanical items that will come with manufacturer's warranties (appliances, A/C, water heaters, etc.) and are handy when it comes to 'fixer uppers'. These individual often choose to waive the home warranty. We recommend you, at least, look into the option so you can make an informed decision.

SHOULD I GET AN INSPECTION?

A: Cannot say enough about the value of a home inspection. To have a professional review all systems and safety issues in the property before you close escrow allows you to have a more complete understanding of what you can expect to encounter once the home becomes yours. Occasionally, something comes up and the current sellers are willing to remedy those issues prior to closing escrow which eliminates that cost to you later. Even if the seller does not agree to make repairs, you have the opportunity to make an informed decision about what responsibilities you are willing to take on.

WHAT IS AN HOA?

A: HOA stands for Homeowners Association. Homeowner Associations manage CIC's, or Common Interest Communities. These organizations, usually established during initial development, are led by members of the Board who are actual homeowners in the community. While the board leads the community, they usually hire a management company to facilitate the administrative and enforcement duties outlined in the governing documents.

SHOULD I BUY A HOME IN AN HOA?

A: Buying into a community with HOA is a personal choice. Some prefer the option so they know that a certain set of standards will be maintained and regulated meaning they won't have to worry about things like unsightly items in driveways or overgrown landscaping. On the other hand, some potential homeowners prefer the option of no HOA hoping for more privacy and freedom from such groups and potential abuses of power.

WHAT IS EXPECTED OF ME DURING THE BUYING PROCESS?

A: It sounds like a lot, however, your agent and your loan officer will be doing most of the work for you. Your process looks a little like this:

1. Meet with the lender to see how much you qualify for.
2. View homes with your agent until you find the one you like.
3. Sign paperwork with your agent to place the offer.
4. Send earnest monies to escrow to open and provide your lender with any financial information they request (ask your agent and/or escrow officer which form of funds to submit – i.e. personal check/cashier's check/bank wire).
5. Review disclosure documents regarding home. These items will vary depending on the type and are of the home you are purchasing.
6. Show up for home inspection with licensed home inspector (if applicable).

7. Prior to signing at escrow, show up for final walkthrough to make sure the home remains in condition as viewed upon signing offer and/or any items requested during escrow have been resolved as agreed.
8. Show up at escrow to sign final closing paperwork & bank wire closing funds (i.e. down payment, closing costs, etc.)
9. Meet agent to pick up keys.

NOTE: We recommend all homeowners change locks or have rekeyed after closing escrow and before moving in. Again, no two homes are alike so prepare to be flexible with process above as it is meant to be a general outline and does not always go exactly as planned.

WHAT IS THE PROCESS TO BUY A HOME IF I AM PAYING CASH?

A: Your agent will do most of the work for you as with any purchase. Your process looks a little like this:

1. View homes with your agent until you find one you like.
2. Sign paperwork with your agent to place the offer.
3. Provide print out showing proof of funds to purchase home to submit with offer to seller.
4. Send earnest monies via bank wire to open escrow.
5. Review disclosure documents regarding home. These items will vary depending on the type and are of the home you are purchasing.
6. Show up for home inspection with licensed home inspector (if applicable).
7. Prior to signing at escrow, show up for final walkthrough to make sure the home remains in condition as viewed upon signing offer and/or any items requested during escrow have been resolved as agreed.
8. Show up to sign final closing paperwork.
9. Meet agent to pick up keys.

NOTE: We recommend all homeowners change locks or have rekeyed after closing escrow and before moving in. Again, no two homes are alike so prepare to be flexible with process above as it is meant to be a general outline and does not always go exactly as planned.

DO I NEED HOMEOWNERS INSURANCE IF I AM PAYING CASH?

A: Accidents, by definition, are “an undesirable or unfortunate happening that occurs unintentionally and usually results in harm, injury, damage, or loss; casualty; mishap.” For most people, your home is the most expensive purchase you will make. We insure our cars, we insure our bodies, and it makes sense to insure your home. There’s no telling what could happen down the road and, unless you have an amount equal to the value of your home lying around waiting for you to blow, it makes more sense to spend a relatively small percentage towards the insurance to protect your home.

WHAT IS A SHORT SALE?

A: A short sale is when a seller sells a property for an amount that is less than what that seller owes the bank. The seller must submit paperwork to the bank and request an approval to proceed with sale and agreement from bank to release lien before closing escrow.

WHAT SHOULD I KNOW ABOUT BUYING A SHORT SALE?

A: Patience. If you have time and ability to be flexible, then considering purchasing a short sale could work out for you. There are several things you should be aware of including:

- Negotiations could take place up several times throughout the transaction. First, the seller offers property for sale at a certain price and terms. Buyer and Seller negotiate terms of sale until an agreement is signed. The seller then submits offer and application to bank to get approval to proceed with sale. Second, and after bank orders a valuation, the bank can often come back with terms they are willing to agree to, so you may find yourself renegotiating with the seller. After coming to an agreement and approval letter is issued by bank, your lender orders an appraisal. If appraisal comes in too low, you may find yourself renegotiating a 3rd time.
- While banks have become more efficient over the years, the process of short sale can take a long time depending on the variables. Variables can be how many loans are on the property, who are the lenders, is there mortgage insurance, who is the investor holding the note, who is processing the short sale (i.e. listing agent, escrow company, attorney, etc.), and many more. If you are offering to purchase a home that requires a short sale, be sure your agent is asking if the listing agent is well versed in the process and gains as much information regarding the variables mentioned so you have a good understanding of what you are walking into. Once escrow is opened, depending on variables, you could be in escrow for 45 days to 24 months. The average short sale, though, is approximately 120 days.
- Short sales take time. If you are getting financing, be aware of interest rates. If you are holding out for this short sale to save a few thousand dollars, but interest rates increase too much over the time you are waiting, it may not make financial sense. Conversely, sometimes waiting on a short sale could save thousands as the market rises if, and only if, the bank agrees to your offer. If you are paying cash, the amount needed to cover the purchase must be available when it comes time to close so you will want to work out the logistics to meet that obligation.
- Is the home occupied or being maintained during escrow. The property may start out in good condition, but over time if the property is not being maintained it could create issues down the road. Example, if your offer is subject to FHA financing and the seller drains the pool and leaves it to dry out and crack in the hot sun it will no longer meet FHA requirements. The bank rarely allows concessions to remedy. This means you would have waited months for an approval on a home you won't be able to get an approved appraisal on without someone expending dollars and effort to bring the property back to acceptable living conditions. So be sure to set expectations up front. Some investors paying cash see this as an opportunity and, occasionally, they would be correct.

Short Sales are not for everyone. However, for some they are a great option. As with any real estate purchase, it depends on your end goals.

WHAT IS AN REO?

A: REO is real estate owned property. Sounds confusing, but simply put, these are bank owned properties.

WHAT SHOULD I KNOW ABOUT BUYING AN REO?

A: Buying an REO isn't much different than buying a traditional sale. You may see some things like:

- Some will accept offers up to a certain date before reviewing and deciding. Usually requires you place your 'highest & best' offer up front
- Some will not pay things like home warranties, transfer taxes, HOA transfer fees, etc.
- Some will only review owner occupied buyers to offer for a period of time before considering investor offers
- Some will offer concessions like home 2-year home warranties or special financing options
- Some are willing to repair certain items and usually do so with reputable vendors
- Some repair properties prior to placing home on the market

It all depends on what type of REO and who the banks are. Usually this information is offered up front and your Realtor will be able to share this with you prior to placing your offer.