New Home Buyer's Guide

The Home Buying Process: A Brief Step-By-Step Overview

If you're like most people, buying a home represents your single biggest investment and debt. As such, the home buying process can be one of the most exciting, but sometimes also stressful, experiences you ever go through. This may be true whether you've bought many homes or you're looking to buy your first, whether you're in the market for a new primary residence, an investment property or that perfect vacation getaway.

Generally, finding and purchasing a home includes the following steps, some of which are examined in more detail throughout this booklet:

1. Define Your Goals, Research Your Options, Make Your Plans

Given that buying a home is such a big step, it's all the more important for you to educate and prepare yourself as much as possible in advance. This means clearly determining why you're buying and what kind of home you're looking for. And because buying and financing a home are so closely related, it also means examining your current financial situation and projecting how much you can afford.

Once you've answered these questions, even tentatively, you'll be in a better position to research your housing and mortgaging options, as well as create an action plan and timelines for moving forward.

2. Get Pre-Approved For A Loan

Generally, it is recommended that you get pre-qualified for a loan before you start viewing homes with the serious intention of buying. The pre- approval process involves meeting with a lender and authorizing them to examine your current financial situation and credit history. On the basis of this examination the lender will provide you with a document that details how much you can borrow to buy a home.

You may want to consider looking online to see what different lenders offer, such as on MortgageMatch.com, or contacting your local bank or credit union.

The benefits of pre-qualification include:

- *You'll have information about what you can afford and be able to plan accordingly*
- *As a qualified, motivated buyer you'll be taken more seriously when you make an offer on a home*
- *Lenders can tell you whether you qualify for any special programs that will enable you to afford a better home (particularly if you're a first-time buyer)*

Real estate financing is available from many sources, your new home sales counselor or a REALTOR will be able to suggest lenders with a history of offering excellent mortgage products and services. Most builders work with a preferred lender they trust to provide quality service. For more information about the benefits of pre-approval and the loan process in general, see section "The Loan Process - Financing Your Home Purchase".

3. View Homes and select THE ONE

Simply put, key to the home search process is knowing what you're looking for. Among other things, that means distinguishing between "must-haves" and "like-to-haves". To help you to target your search and define your home preference priorities.

It's also important to view homes in person. While their property details may seem similar online, homes can actually be very different in terms of layout, design, workmanship and other aspects.

4. Work With Your Sales Counselor or REALTOR To Make An Offer

Now that you've found the home you'd like to buy, it's time to make an offer. You may work with your new home sales counselor or a REALTOR. When buying a new home, contracts are typically done on a builder contract. These contracts enable you to specify a sale price and also include many clauses for specifying various terms of purchase, such as the closing and possession dates, your deposit amount, and other conditions. You should carefully review these clauses with your attorney to ensure that you understand them. Your new home sales counselor will draw up the contract or work with your REALTOR in drawing up the contract and address all your questions about the offer process.

Once you've written the offer, the new home sales counselor will present it to the builder. At that point, the process – given that a home's eventual sale price is subject to supply and demand – will depend on the kind of market you're in. Generally though, the builder can accept your offer, reject it, or counter it to initiate the negotiation process.

On a new home contract, counter-offers typically deal with price and incentives or major deadlines like closing dates or under contract dates on home sale contingencies. This process continues until you and the builder reach a mutually-satisfactory pending agreement or the negotiations breakdown.

5. Secure Your Financing

Once you have a pending agreement, it's time to go back to your chosen lender to finalize your mortgage details so you can close the deal. This means finalizing your down payment, interest rate, regular payment schedule and any other financial conditions associated with the closing.

As noted in the section on loan pre-approval, if you've already been qualified with a lender for a certain loan and home purchase, this phase of buying your new home should be a relatively straightforward matter that centers around finalizing the loan details and signing the mortgage papers.

For more information on the loan process, see section on "The Loan Process: Financing Your Home Purchase".

6. Close The Deal

If you've efficiently taken care of everything connected with purchasing your new home, the experience of taking ownership will be a positive joy with no surprises. Key steps to the closing, also referred to as the "escrow" or "settlement", include:

- *Getting a Title Search – an historical review of all legal documents relating to ownership of the property – to ensure that there are no claims against the title of the property. It is also necessary to purchase Title Insurance in case the records contain errors or there are mistakes in the review process.*
- *The Final Walkthrough – you'll be given the chance to look at the home to make sure it's in the same condition as when you signed the sale agreement. With new construction, a final walkthrough is done the week prior to closing and a punch list is generated for items for the builders to address.*
- *The Settlement – typically, on the Closing Date you'll go to a title company to verify and sign all the paperwork required to complete the transaction. The settlement will include paying your closing costs, legal fees, property adjustments and transfer taxes. At that point, you'll receive the property title and copies of all documentation pertaining to the purchase.*

Oh, and one more thing – you'll get the keys. In most cases, Possession Date will fall on the day of closing, at which point you'll be able to move into your new home.

To Buy or Not To Buy: Considerations for Buyer's in this Market

Buying your first home is a major step. There's a lot you need to know to make the right decisions – and also to avoid making the wrong ones.

Owning Versus Renting

Without question, owning a home comes with responsibilities and risks that you don't have to worry about when you rent, such as a mortgage, taxes, homeowner's insurance, maintenance and repairs, to name a few.

However, financial advisors – not to mention homeowners themselves – say there are far more advantages to owning:

- *Historically, it has trended that over time, you'll lose money by renting instead of owning your own home. Why not build up equity in a home instead of paying your landlord's mortgage?*
- *Although there are periodic market drops, historically owning a home has been a prime financial investment*
- *You can take advantage of many ongoing tax benefits, like deducting the interest on your mortgage and property taxes from your income tax*
- *Owning a home isn't just a good investment in financial terms, it's also an investment in a higher quality of life – particularly if you have a family or if you're planning one*
- *There is a special kind of pride in the ownership and upkeep of a home that you won't get with renting*

At the end of the day, it just feels good to own your own home. You can decorate it any way you like, personalize your landscaping, and with some new homes you can choose your finishes or floor plan layout to meet your lifestyle.

Do You Qualify To Own?

There's only one way to find out: talk with the sales counselors preferred lender or go to your bank and/or another lending institution or mortgage broker and allow them to perform a credit check and analyze your financial situation.

You might be surprised to know that there are many renters who financially qualify to own their own homes, but don't realize it. Are you in this category? It would be a shame if you wanted to own your own home, but didn't know you could – particularly in this perhaps once-in-a-lifetime buyers' market.

Also, keep in mind you may be eligible for loans insured by the Veterans Administration (VA) or the Federal Housing Administration (FHA).

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Is It A Good Time To Buy?

Generally speaking, if you’re financially qualified, your timing couldn’t be better. In fact, few markets have ever offered the kinds of opportunities that currently exist for first-time home buyers, because:

- *Home prices are down generally*
- *Mortgage rates are historically low. You might be able to lock-in at a very low rate on a 30-year mortgage!*
- *Builders have a variety of home floor plans – i.e. plenty of homes to choose from*
- *There are many foreclosed homes and distress sale listings available at greatly reduced prices*
- *Builders may have special incentives or options available that make the home more valuable to you*

So the bottom line is that if you are currently renting but really wan to own a home, this is a fantastic time to buy. And again, you may qualify to buy and not know it. So talk to a knowledgeable, experienced new home sales counselor or REALTOR® about your options.

Not only that, but in case you didn’t know, all the work that a new home sales counselor or REALTOR® does to help you obtain your new home, get financing, and purchase the home won’t cost you a penny – it’s all paid for by the builder!

The Loan Process: Financing Your Home Purchase

Unless you’re one of the rare few able to pay cash for your home, central to buying is finding the right lender and mortgage product. There are many different kinds of lending institutions, offering a wide range of loans and special programs. In fact, you should diligently research your options and shop around for a mortgage with as much care as you take when looking for a home. Here are the main steps to securing the mortgage that best suits your needs.

Educate Yourself About Your Options

Sad to say, but we’re currently in a time when many people are suffering the consequences of having made poor – and perhaps ill-advised – mortgage decisions. That’s why it’s crucial for you to learn as much as you can about your mortgage options.

There are myriad loan types and programs available through thousandsof banks, finance companies, credit unions, and other assorted lenders.

Not surprisingly, there are just as many sources of information about mortgages. Websites like REALTOR.com®, books, news articles, seminars, mortgage brokers, lenders, and knowledgeable new home sales counselors or REALTORS® can all help you make your way through the labyrinth of financing possibilities, so make use of them. And be sure to get a few opinions.

In short, do your homework before you put your name on the line, because what you don’t know could hurt you.

Sincerely Examine Your Financial Situation

Together with educating yourself about your loan options, you should be asking yourself how much mortgage and down payment you can really afford. Make yourself accountable. What might you be giving up – not just every month, and also perhaps 20 years down the road – by extending yourself further? Maybe taking on a larger mortgage will pay off greatly as an investment, maybe it won’t. Be sure to weigh the risks and opportunity costs.

Along these lines, loan calculators will help you determine what your regular payments will be based on your projected down payment, the loan principal, the interest rate, the mortgage term, and so on.

One other point to note is that some lenders will qualify you for the maximum they’re willing to lend which, however, may be more than you can truly afford given all your other responsibilities. Additionally, be sure to factor all related taxes, insurance, improvements, homeowner fees and all other potential costs into the equation. The bottom line is that you should make a list of your monthly expenses, as well as project your financial commitments during the life of the mortgage. This will provide a realistic figure of what you can afford.

In shopping for a loan you should consider two main sources: direct lenders and mortgage brokers. Direct lenders have the money and make the decisions, but have a limited number of in-house products to offer. Brokers are intermediaries who charge a fee, but who can provide you with loan options from many sources and can often save you money overall.

Your Basic Mortgage Options

Generally, there are two ways you can go: a fixed-rate mortgage with an interest rate that remains the same for the life of the loan, or an adjustable-rate mortgage (ARM) with a rate that adjusts up or down, depending upon economic trends.

The advantages of a fixed-rate mortgage – particularly if you lock in at a low rate – are that they protect you against the risk of rising interest rates, and their stability can also make it easier for you to plan and budget your short and long-term expenses. Their down side is that they generally have higher rates than ARMs at any given time, and by locking in you run the risk of being trapped at a relatively high rate if interest rates fall.

Another main consideration with a fixed-rate mortgage is the term. Shorter term mortgages, like a 15-year, have lower rates than a 30-year. The shorter term and lower rate mean that you'll pay less interest over the life of the loan, although your monthly payments will generally be higher.

On the other hand, an adjustable-rate mortgage's (ARM) rate is commonly based on the U.S. Treasury index for a one-year Treasury bill, although it may also be geared to other indexes. Generally, lenders add 2-4% to the index rate to get their ARM rate. Initially, the rate is lower than the fixed rate by a quarter point to two points or more. This rate will periodically adjust within set limits or "caps" that are specified by the terms of the loan.

Finally, it must be reiterated that the loan you ultimately qualify for will depend on your credit status. The best rates and terms are only available to those with solid credit so, if possible, pay off your credit cards and make all other bill payments in full and on time.

Apply For A Mortgage

Once you've reached a pending agreement with the builder to buy a new home you'll have all the details you need to formally apply for a mortgage.

When you meet with your chosen lender to complete the application you'll need to provide information – if you didn't during the pre-approval process – about your household income, job tenure and stability, assets and existing debt, and regular expenses. This may take the form of pay stubs, bank and investment statements, tax returns and other documentation. The lender will also check your credit status.

During the application process you'll discuss your different loan options and programs you qualify for, as well as finalize the size of your down payment. If you place less than 20% down, the lender may require the mortgage to be guaranteed by a third party such as the Veterans Administration (VA), the Federal Housing Administration (FHA) or a private mortgage insurer (PMI).

Lastly, if you qualify for the loan you're seeking, the lender will often have the home you're buying professionally appraised to ensure that it is worth the purchase price.

Is It Really THE ONE? If So, Make It So

Even in a buyers' market like this one, if you're really interested in buying the home you're negotiating over – if it really is THE ONE – you should be willing to make some compromises to make the deal happen. If that's not the case, then you should listen to your heart and consider looking for another home – it just might be out there waiting for you . . .

That said, here are a few basic principles of successful negotiation to consider if you're committed to completing your purchase:

- *Remember your priorities and respect the builder's – don't let small things get in the way of your better judgment*
- *If necessary, defer until later – if small issues do get in the way in the midst of big ones, focus on and consolidate your agreement on the big issues and come back to the small ones later*
- *At the end of the day, if there are disagreements about relative small expenses, split the difference and smile*

The reality is that most negotiations proceed without much problem. In the event that there are difficulties but you're committed to buying the home, remember: where there's a will there's a way.

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A Home Buyer's Glossary

When buying a home, it's important to understand some of the key concepts and terms. Throughout the purchase process, feel free to ask your sales counselor or your REALTOR to explain any unfamiliar terms you encounter. That said, here is a short list of terms you'll want to know:

Abstract Of Title – A complete historical summary of the public records relating to the legal ownership of a particular property from the time of the first transfer to the present.

Adjustable Rate Mortgage (ARM) – Also known as a variable-rate loan, an ARM is one in which the interest rate changes over time, relative to an index like the Treasure index.

Agreement of Sale – Also known as a purchase and sale agreement, contract of purchase, purchase agreement, or sales agreement according to location or jurisdiction. A contract in which a builder and buyer agree to transact under certain terms spelled out in writing and signed by both parties.

Amortization – The process of reducing the principal debt through a schedule of fixed payments at regular intervals of time, with an interest rate specified in a loan document.

Appraisal – A professional appraiser's estimate of the market value of a property based on local market data and the recent sale prices of similar properties.

Assessed Value – The value placed on a home by municipal assessors for the purposes of determining property taxes.

Closing – The final steps in the transfer of property ownership. On the Closing Date, as specified by the sales agreement, the buyer inspects and signs all the documents relating to the transaction and the final disbursements are paid. Also referred to as the Settlement.

Closing Costs – The costs to complete a real estate transaction in addition to the price of the home, may include: points, taxes, title insurance, appraisal fees and legal fees.

Contingency – A clause in the purchase contract that describes certain conditions that must be met and agreed upon by both buyer and builder before the contract is binding.

Counter-offer – An offer, made in response to a previous offer, that rejects all or part of it while enabling negotiations to continue towards a mutually-acceptable sales contract.

Conventional Mortgage – One that is not insured or guaranteed by the federal government.

Debt-to-Income Ratio – A ratio that measures total debt burden. It is calculated by dividing gross monthly debt repayments, including mortgages, by gross monthly income.

Down Payment – The money paid by the buyer to the lender at the time of the closing. The amount is the difference between the sales price and the mortgage loan. Requirements vary by loan type. Smaller down payments, less than 20%, usually requires mortgage insurance.

Earnest Money – A deposit given by the buyer to bind a purchase offer and which is held in escrow. If the property sale is closed, the deposit is applied to the purchase price. If the buyer does not fulfill all contract obligations, the deposit may be forfeited.

Equity – The value of the property, less the loan balance and any outstanding liens or other debts against the property.
Easements – *Legal* right of access to use of a property by individuals or groups for specific purposes. Easements may affect property values and are sometimes part of the deed.

Escrow – Funds held by a neutral third party (the escrow agent) until certain conditions of a contract are met and the funds can be paid out. Escrow accounts are also used by loan servicers to pay property taxes and homeowner's insurance.

Fixed-Rate Mortgage – A type of mortgage loan in which the interest rate does not change during the entire term of the loan.

Home Inspection – Professional inspection of a home, paid for by the buyer, to evaluate the quality and safety of its plumbing, heating, wiring, appliances, roof, foundation, etc.

Homeowner's Insurance – A policy that protects you and the lender from fire or flood, a liability such as visitor injury, or damage to your personal property.

Lien – A claim or charge on property for payment of a debt. With a mortgage, the lender has the right to take the title to your property if you don't make the mortgage payments.

Market Value – The amount a willing buyer would pay a willing seller for a new home. An appraised value is an estimate of the current fair market value.

Mortgage Insurance – Purchased by the buyer to protect the lender in the event of default (typically for loans with less than 20% down). Available through a government agency like the Federal Housing Administration (FHA) or through private mortgage insurers (PMI).

Possession Date – The date, as specified by the sales agreement, that the buyer can move into the property. Generally, it occurs within a couple days of the Closing Date.

Pre-Approval Letter – A letter from a mortgage lender indicating that a buyer qualifies for a mortgage of a specific amount. It also shows a home builder that you're a serious buyer.

Principal – The amount of money borrowed from a lender to buy a new home, or the amount of the loan that has not yet been repaid. Does not include the interest paid to borrow.

Purchase Offer – A detailed, written document which makes an offer to purchase a property, and which may be amended several times in the process of negotiations. When signed by all parties involved in the sale, the purchase offer becomes a legally-binding sales agreement.

Title – The right to, and the ownership of, property. A Title or Deed is sometimes used as proof of ownership of land. Clear title refers to a title that has no legal defects.

Title Insurance – Insurance policy that guarantees the accuracy of the title search and protects lenders and homeowners against legal problems with the title.

Truth-In-Lending Act (TILA) – Federal law that requires disclosure of a truth-in-lending statement for consumer loans. The statement includes a summary of the total cost of credit.

Title Search – A historical review of all legal documents relating to ownership of a property to determine if there have been any flaws in prior transfers of ownership or if there are any claims or encumbrances on the title to the property.