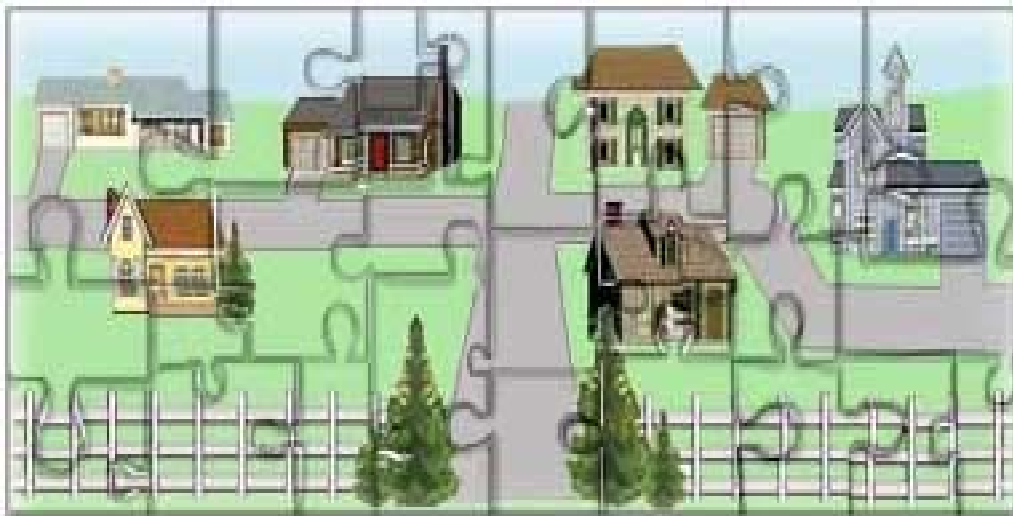




Home Buyers' SURVIVAL KIT



Helping you put the pieces of the
home-buying puzzle together



Hi!

Welcome to the "Home Buying Survival Kit". I've created this booklet to help guide you through the home search and buying process and to be a resource to help answer any questions or concerns you may have along the way. The greater your understanding of the market and the process, the better equipped you will be to make the very best home buying decisions. But please understand this is meant to be "basic" information for you. No doubt things may pop up that are not covered here, or are covered in such a way as to leave you still with questions. Please feel free at any time to give me a call at (630) 605-8902 or email me at Judi@HomesLady.com. I'm more than happy to help in any way I can. Providing you with the most complete, professional Real Estate Service is not just my job, it's my pleasure!

JUDI BRYAN
Broker CRS,GRI,ACRE,e-PRO
Executive Realty Group
Phone Direct: (630) 605-8902
E-Mail: Judi@HomesLady.com

Free Reports & Information at: www.eHomeSmart.com

BEGINNING THE PROCESS



Thinking about buying your First Home? Or maybe it's simply time for a change. Whether you've purchased a home before or not, the market and the process are constantly changing, and in the '90s those changes are more frequent and more dramatic than ever before. This **SURVIVAL KIT** is designed to help you through the process from start to finish.

Making the decision...is this the time to buy? Home ownership represents security, stability, and having a place to "nest" each day. Certainly there are financial advantages to home ownership which we'll discuss later. But the decision as to "whether" or "when" to buy is a very personal one and must take into account many factors. For example: How long do you plan to live in the area? How much have you saved for downpayment & closing costs? What is the rate of appreciation in the area you are considering? What is your income/debt situation? How is your job stability? Do you anticipate an increase/decrease in your household income any time soon? How you answer such questions as these can play an important role in your decision making.

Should you seek professional help? The market was different when your folks bought their home. Your friends' situations are different than your own. Newspaper articles, TV ads, etc., are fine, but they often represent opinions rather than facts (and it's sometimes difficult to distinguish the difference) Bankers generally cover their own company's financing rather than providing an overview of the various types of financing alternatives and the pros and cons of each. An experienced, professional Realtor can assist you in combining your particular situation and needs with appropriate financing alternatives and available properties. Bear in mind, however, that not all Realtors are alike ... Take the time to find a good one and stick with that agent!

Selecting the right agent - Prior to January of 1995, the majority of Realtors in the state of Illinois were working as what were called "sub-agents" for the sellers. This meant, quite simply, that they owed certain "fiduciary" responsibilities to the sellers. Even when the agent was working "with" a buyer, they were still working "for" the seller. Certainly, good agents were skilled at creating an atmosphere where both a buyer and seller could come to mutually acceptable terms when contracts were negotiated. However, if the agent working "with" the buyer knew something about the seller's situation that might give the buyer a negotiating advantage, that agent could not disclose that situation to the buyer. It would be a violation of that agent's responsibilities to the seller. **But times have changed! Since January of 1995, in Illinois, most agents now work "for" the party "with" whom they work.** As a prospective buyer, take the time to interview any agent you are considering. Find out exactly what you can expect from that agent. Are they a full-time professional or is this a "part-time job". Many, many real estate agents have other jobs. This is likely going to be your single largest investment of your life to date...don't settle for part-time service!



Getting prequalified - This is undoubtedly the single most critical step in the process ... and unfortunately it is often overlooked until the damage has been done! All too often buyers lose a potential new home because they can't get approved for a mortgage. Or, they find themselves in the dilemma of having to get \$xxx for their current home in order to afford the home they want to buy (even though what they want for their home is many thousands more than the market will bear!) These, of course, are problems which could be averted, or at least diminished, had proper prequalification been done. If you're thinking about buying a home, doesn't it make sense to find out what price range you would be able to afford BEFORE you go out looking at homes? It's no fun falling in love with that \$120,000 split level with vaulted ceilings, 3 bedrooms, attached garage, when you could likely get a mortgage on a \$95,000 ranch with 2 bedrooms and a 1 car detached garage. It makes good sense to find out first that a \$95,000 home is appropriate for your budget, and then to set about to finding the very best \$95,000 home for you!

By the same token, if you need to sell a current home in order to purchase the next one, doesn't it make sense to find out what the market value on your current home is and what you would likely "net" from that sale BEFORE you contract to purchase another home? It is so much easier to do the homework first - then you can really enjoy the fruits of your labor! And **prequalification includes more than just a financial profile**. It also includes reviewing basic information on your lifestyle. For example, do you prefer to stay at home alone or do you love to entertain? Do you need to commute regularly by plane, train or expressway? And is easy access to shopping, churches, schools, etc. important to you? What changes in income available to make a mortgage payment do you anticipate in the next 1-3 years, either increases or decreases, and what changes in the size of your family do you anticipate during that time? Are there items of furniture that you cherish which have requirements of their own? That king sized waterbed will not fit most 10x10 bedrooms, and that 8' heirloom china cabinet needs an appropriate wall. These are all parts of the prequalification process, and the professional Realtor knows it and puts it to work for you!

Finding the Home - Once you know what price range home is appropriate for you, and have some general idea of what to look for and where, this is where the real **FUN** begins - finding your home! The best way to do this is to organize a program and examine the different areas and types of homes which you may want to consider. A haphazard approach will likely confuse you and may lead to a poor choice, while a well orchestrated plan will help you to feel comfortable that you've made the best decision for yourself and your family.

The Offer to Purchase - This refers to the actual specific elements of the contract between the buyer and seller. It includes such things as purchase price, financing terms, mortgage commitment date, closing date, possession date, earnest money deposit, home inspection, personal property to be included, etc. Your Realtor will assist you in determining your offer terms, drawing up the paperwork and presenting your offer to the seller. And as a "Buyer's Agent", they should provide you with "comparable sales" information to let you know what similar homes in the area have

recently sold for, and how they compared to the property you are considering.



Attorney Review - Although some buyers do choose not to utilize the services of an attorney, I **STRONGLY RECOMMEND YOU DO!** Again, this is your single largest investment to date, and you should have that investment protected. Realtors are not lawyers and cannot give you legal advice. Neither can lenders, parents, or even best friends! There is simply too much at risk!

The Loan Application - After successfully negotiating a contract to purchase a home, this is generally the next step (if a mortgage through a lender is the type of financing used and you do not already have a pre-approved mortgage). When you first spoke to various lenders during the “prequalifying” process, you already addressed most of the elements of the loan application ... so this should come very easily for you.

The Home Inspection - It is important to recognize that there is no such thing as a “perfect house”, and quite often there may be conditions in a home about which even the owner is unaware. Your Realtor® is not a structural expert and will likely be unable to point out things about the home that may be important for you to know. Most purchasers, particularly of older homes, elect to have an independent home inspection conducted. This will be discussed in greater detail a bit later.

Follow-up Prior to Closing - If you’ve been using a competent Realtor, she/he will keep you informed as your transaction progresses. Details such as mortgage progress, inspection results, insurance reminders, utility startups, closing details, etc., will be relayed.

Closing and Possession - This is when you actually become the proud owner of your home! Usually closings take place at the lender’s office, the title company, the realtor’s office, or attorney’s office. Closing and possession often occur on the same day, although there may be circumstances in which they do not. If they do not, special terms need to be agreed upon. Your attorney will guide you in this situation.

WHY DO PEOPLE BUY HOMES?

DECIDING WHETHER YOU WANT TO BECOME A HOMEOWNER - Here are some of the reasons why so many people have opted for home ownership:

- ❑ **Tax Benefits** - Owning your own home presents unique tax advantages, particularly since Uncle Sam has eliminated most other tax deductions. First and foremost, the major portion of your monthly mortgage payment (the interest on your loan) is tax deductible. In addition, if you paid “discount points” to your lender (generally defined as prepaid interest) these are deductible in the year in which they are paid. To be on the safe side, consult your tax accountant to confirm this information and how it specifically impacts your taxes. In addition, for most homeowners, Real Estate Taxes are fully deductible as

well. And the combination of interest and taxes can add up to a sizable deduction. For example, if taxes and interest add up to \$8000 for the year and you are in the 28% tax bracket, your tax savings amounts to \$2240 or \$186.67 per month (.28 x 8000). Not bad! (These are approximations, and you should consult your tax accountant to determine your specific tax benefits.)



- ❑ **Appreciation** refers to the increase in value of the home over time. Inflation, supply vs. demand, financing terms, current interest rates, the location, size, and condition of the property, etc., all combine to influence the value of a home. Consideration should also be given to the **length of time you plan to hold onto Real Estate**. Typically, a purchase which is only to be held for a year or two will likely result in the expenses of resale eating up any appreciation which the property may have had during that time, while property held onto for longer periods will likely generate profits over and above the costs of reselling.
- ❑ **Pride of Ownership** is that intangible benefit of having a home of your own. Being able to come home from work to a place of your own, being able to tinker in the garage or the yard, customizing your home to your own taste and lifestyle, and being able to invite friends into your home (and not your landlord's apartment) are all benefits.

WHAT DOES THE REALTOR® DO?

To help you select a Realtor you can rely on, there are some things you should realistically expect the Realtor to do:

- ❑ They should do a **Thorough Pre-qualification**. This means a review of your particular real estate needs & wants, your financial profile including income, assets, and liabilities, and a review of your prior experience in the market. This may well be done in conjunction with your lender. All this is designed to help the Realtor get a clear understanding of how best to be of service to you. A knowledgeable Realtor will be well versed in specific types of properties available in a wide variety of areas. They should know current financing alternatives as well as which of those options might best be suited to your particular circumstance.
- ❑ They will be familiar with **Available Homes** in the areas in which you are interested. Your Realtor, though affiliated with a particular firm, has access to virtually all homes on the market with any Realtor through the Multiple Listing Service (MLS). So, if you drive by a home listed with another firm, go ahead and let your agent know ... she/he can still provide you with the service you deserve. In addition, your Realtor can help you with New Construction and homes For Sale by Owner, both of which will be addressed a bit later.
- ❑ They will offer the **assistance of other professionals** in related industries (such as lenders, home inspectors, attorneys, etc.). If you need recommendations for any related services, your Realtor should recommend not less than two professionals in any given field.

- ❑ They will be a **full-time** Realtor! Would you want a part-time doctor operating on you? How about a dentist who works at the local shoe mart during the day, then moonlights on fillings and extractions? The single largest investment of your life deserves to be taken no less seriously!
- ❑ They will be committed to **ongoing training and education**. The Real Estate Industry today bears little resemblance to the industry of 10 ... even 5 years ago! Ask your Realtor what she/he is doing to keep abreast of the changes.
- ❑ They will explain to you the various **types of "agency"** (the details of which I'll cover shortly) and discuss with you how you wish them to work with you.



NOTE: It is also important for you to be aware that there are a few things that the REALTOR CANNOT DO ... and they generally have to do with Fair Housing. Quite often a buyer will ask a Realtor "Is this a 'good' area?" or "Do the schools offer English as a second language?" or "What is the racial composition of this area?" Your Realtor CANNOT answer such questions as these without being in violation of Federal Laws. Any statistics you may be interested in for any area are generally available at local Village Halls, Chambers of Commerce, the School District Offices, etc. A good Realtor is as concerned about fair treatment as you are!

As mentioned earlier, the Realtor (and you) have a couple of options as to how you will work together. There are basically 3 alternatives from which to choose, with the possibility of a 4th under certain circumstances:

The Realtor is an **Agent of the Seller**

The Realtor is an **Agent of the Buyer**

The Realtor is performing "**Ministerial**" Acts only

The Realtor is **Dual Agent** with consent of Seller & Buyer

Since January of 1995, in Illinois, most Realtors working with a buyer are doing so as **agent of the buyer**. What this means, for example, is that if the agent knows anything about the seller's motivation (i.e. the seller's on the verge of bankruptcy, in the midst of a divorce, etc.) that information must be disclosed to the buyer. Motivation, certainly, is an important element of negotiations. Every bit as important as the seller's motivation is an estimate of fair market value on the home itself. **As an agent of the buyer, the Realtor can, and should do what is called a "Comparative Market Analyses" (CMA) on the home you wish to buy to help you determine how much you're willing to pay.** The CMA will show you whether the home is competitively priced for the market, is overpriced, or is a great buy since it is priced under market.

When a Seller hires a Realtor, there is a contract between them that spells out their agreement and mutual responsibilities. It provides information on what each party is expected to do, during what period of time, and for what compensation. In the event you choose to work with a Realtor who represents you as a Buyer's Agent, you will be contracting with that Agent with very specific

terms, time period, and compensation spelled out. You should discuss these with your Agent prior to signing anything so you are sure you understand what is involved. In most cases, the buyer's agent is paid at closing out of proceeds from the sale of the home. If you work with an agent who requires a written "Buyer's Agency Agreement", make sure you know, prior to signing the agreement, what recourse you have if the agent fails to do their job. Make sure you know up front if there are any minimum fees, how will your agent be paid, etc.



Another circumstance of which you should be aware is that of "**Dual Agency**". This is where the Realtor would be representing BOTH the Seller and the Buyer. Be aware that, in Illinois, an agent may represent both the Seller and the Buyer, provided BOTH give the agent written permission to do so. If an agent is working as a Dual Agent, please note that neither Buyer nor Seller can receive full agency service. A simple example of this would include any motivational information the Agent likely knows about either party. For example, if you wish to work with the Listing Agent on a property to purchase that property, and the Agent knows that the Seller is being foreclosed on, the Agent CANNOT disclose that to you since it would violate their other agency relationship.

You can also request a Realtor work with you performing only what are termed "**ministerial acts**". In this case, you disclose no confidential information to the agent, they do not counsel or advise you, they simply provide basic information but no interpretation. For example, they could give you a list of the properties recently sold or on the market, but they would not interpret that information for you. Also, they could fill out the offer paperwork, but not advise or counsel you on what to include in the terms. It is important to remember that, regardless of Agency relationship, both buyer and seller are entitled to ethical treatment, and the buyer is entitled to be informed about any material defects in the property of which the agent is aware.

My best recommendation is to take a bit of time to find a Realtor with whom you feel comfortable and in whom you have confidence, and then stick that agent! The best business any Realtor can get is repeat business and referrals from satisfied past customers, so expect them to do a good job. It's wisest to resist the temptation to bounce between several agents. If your agent feels they do not have your loyalty, they will be less likely to work diligently for you...after all, if you happen to buy a home from one of those other agents, they know they will not get a dime.

A word about **By Owner properties** is important here, too. Your Realtor can make contact with any By Owner seller on your behalf and try to arrange an agreement with that owner that they be paid out of proceeds from the sale of the home should you decide theirs is the home for you. Many Sellers put their home on the market on their own because they feel their home is worth much more than the market indicates to be true. Since your Realtor will do a Market Analyses for you, they can tell you whether the home you are interested in is, in fact, fairly priced. Remember, too, if you are purchasing a home that it marketed by the owner only, and the price they are asking is the same price as similar homes listed with Realtors, (where the fees for the professional services of an agent

are incorporated into the price), and they refuse to include any compensation to a Realtor, they are in essence expecting you to pay for something you are not getting...the advice, negotiating skills, link to other services, and follow up through to closing provided by a professional agent.



OK, LET'S TALK ABOUT FINANCING!

Generally speaking, there are three elements to your financial commitment to the purchase of your home. The first two (your Downpayment and Mortgage amount) combine to make up your total purchase price, and the third, Closing Costs, are additional charges needed to secure your loan.

- ❑ **Downpayment** is your "cash up front" which is the difference between the amount you finance through the mortgage and the amount you agreed to pay for the home. This usually comes from savings, cashing in of stocks, bonds, insurance policies, and "gifts" from parents.
- ❑ **Closing Costs** are a part of virtually every transaction. The type and amount of closing costs depends on the type of financing selected. You may have seen mortgage information in the newspaper which looked something like this: 7.5+3+250. Translated, this means the lender is charging 7.5% interest rate for 3 points (each "point" equals 1% of the total mortgage amount ... not the total purchase price) and \$250 application fee.
- ❑ The "**points**" charged are probably the single largest expense for purchasing a home except the downpayment. Additional closing costs include such things as title and escrow fees, prepaid homeowner's insurance, document preparation fees, etc. There are several of these charges, but their total mounts into the hundreds of dollars rather than thousands. Points will be covered in greater detail in the overview of the various types of loans.
- ❑ The **Mortgage** is the instrument by which most buyers finance their home. This involves deciding which type of financing best suits the buyer's needs and circumstances. But, regardless of which type of mortgage you choose, there are components to the payment common to any mortgage:
 - **Principal** is that portion of your payment which is applied toward the reduction of your mortgage balance. In the early years, the pay down of principal is very low, while the interest portion is extremely high. This gradually changes as the years go by until the later years of the loan wherein the opposite is true.
 - **Interest** is what the lender charges for the use of their funds. Remember, when you put 5% downpayment on your home, this means that you have invested 5% of your own money in that home ... the lender, on the other hand, has invested 95% of the purchase price on that home. For the majority of homeowners, this interest is generally fully deductible. For a very small percentage of homeowners, based on their high income, deductibility does have limitations. Also, there are limitations on deductibility on properties that are investor owned. Here, the focus is on interest on loans by the typical homeowner for their primary residence home.
 - **Real Estate Taxes** are paid for each piece of real estate property. These taxes are paid "in arrears" (for the prior year) and are generally due in two installments. Most

lenders require that the homeowner put approximately 1/12 of the yearly tax into a special account, called an escrow account, each month. When the taxes become due, the lender will pay them out of the borrower's escrow account. By the way, Real Estate Taxes are also generally fully deductible.



- **Insurance** on the home is required by your lender, and when you close on the purchase of your home, your lender will require that you bring to closing one full year's paid up insurance policy. This insurance is "hazard insurance", not to be confused with "private mortgage insurance" described below. From that point on, you may either pay 1/12 of your annual premium included in your monthly mortgage payment, or you may pay independently to your insurance company. This depends on your lender's policy, so check to see what your options are. This insurance covers such things as fire, theft, etc.
- There may also be some sort of **Homeowner's Association Fee**, depending on the type of property you purchase. This may be a monthly, quarterly, or annual fee. If there is a monthly fee, your lender will included this required payment in his calculations of your monthly payment.
- In addition to your "PITI" described above, you may also be required to pay an additional insurance premium, either PMI or MIP. **PMI** (Private Mortgage Insurance) and **MIP** (Mortgage Insurance Premium) are insurance programs to protect the Lender. As mentioned earlier, the lender has an very large interest in your home as well as in your ability to pay for it. The type of loan you take out for your home, and perhaps the amount of your downpayment, determines if you will be required to pay one of these types of premiums.
 - **PMI** is required on most **CONVENTIONAL** loans where the borrower's downpayment is less than 20%. As these policies do vary, and PMI is a non-deductible cost, it's worthwhile to check on this before you take out a mortgage.
 - **MIP** is generally required on all VA and FHA loans. Guidelines for MIP have undergone some recent changes...check with your lender regarding the ability to have MIP eliminated from the payment.

Buyers have a variety of different financial situations, temperaments, capabilities, etc. The type of loan your best friend took out to get their home may be very different than what is best suited to your particular needs. Following is an overview of some alternative types of financing:

- **CONVENTIONAL** loan refers to the type of financing offered by most Savings & Loans, as well as many Mortgage Brokers and Mortgage Bankers. These are "non-government" loans as opposed to FHA and VA. In general, there are some very basic guidelines and rules that apply to the typical conventional loan. There seems to be a general misconception that a buyer must have at least 20% downpayment to be able to get conventional financing, which is generally **NOT** true! A borrower can get a loan of up to

95% of the purchase price of the home, provided he/she can qualify for the monthly payment. In the event, however, that the loan is for any more than 80% of the total purchase price, the borrower will need to pay a special insurance premium (called PMI or Private Mortgage Insurance). This is not insurance on the home, but rather insurance on the borrower. What it does is protect the lender against a borrower who defaults on (fails to pay) their loan. Note: if you select a conventional loan, and fall within the category of borrowers that requires PMI, check with your lender as to their PMI removal policy. This means, ask them if, at some point in time, you would be able to remove PMI from your loan. Each lender has its own policy in this regard. They may (1) allow you to drop PMI once you have reduced your mortgage balance below 80% of your Original Purchase Price; they may (2) allow you to eliminate your PMI payment at whatever time in the future that you can substantiate by either a "fee appraisal" or a Realtor's "comparative market analyses" or both that you have achieved 80% of the then current value of your home, or (3) they may require that PMI is always a part of your loan. Since this varies, you should check with any lender you are considering to see what their particular policy is.



There are a variety of "conventional" loan programs available, and they are designed to provide flexibility for the borrowing public. The type of loan that was appropriate or desirable for your sister, your neighbor, the guy at work, etc., may not necessarily be the best for you. Here are some options:

- **Fixed Rate** - In times of lower interest rates, these are generally the most popular. In this type of loan, the P/I (principal and interest) payment remains constant over the life of the loan. The terms for these loans can be 10, 15, 20, 25, 30, or 40 years with the 15 and 30 year programs being the most common.
- **Fixed Buydown** - This type of program has become very popular in more recent years. It provides the advantages of a lower initial interest rate as well as the security of knowing the long term rate. Basically, this is a program born of the fixed rate where some of the "points" are applied to buy down the current interest rate for the first two or three years. A simplified explanation would be if the current fixed rate loan costing "0" points was, say 9%, you might be able to get a loan costing 2 points that started out at 7.25% for the first year, 8.25 for the second year and leveling out at 9.25% for years 3 through 30. In other words, your final interest rate would be ever so slightly higher than it would have been had you taken out a fixed rate loan now, but by buying down the initial rate, you may qualify for a little more home today, rather than waiting until your income goes up, you have more downpayment, or interest rates drop. This is especially beneficial for someone anticipating increases in income in the very near future.
- **Balloon Mortgage** - This is a program wherein the interest rate is fixed for a predetermined period of time (3, 5 and 7 years being very common), at the end of which the loan may become payable in full, may become an adjustable rate loan, or may be

converted to a new fixed rate loan based on the then prevailing interest rates. What happens to this balloon mortgage varies from program to program, and lender to lender, so by all means check with your lender as to their program's specifics.



- **Adjustable Rate Mortgage (ARM)** - This type of loan often gains popularity during periods of higher interest rates, or for borrowers who only plan to own their home for a very short period of time (perhaps someone who gets transferred by their company often). The initial interest rate of the ARM program is often significantly lower than prevailing fixed rate mortgages, so the borrower can often qualify for much more home than he/she would using a fixed rate mortgage. Because the loan rate adjusts, it is important to fully discuss the terms with the lender before signing up for one of these programs. You'll want to become familiar with such terms as:
 - **Caps** (Generally appearing as two numbers, such as 2/6 or 1/5, where the first number represents the most the interest rate can adjust during each adjustment period and the second being the most it can adjust during the life of the loan)
 - **Index** (This is the basis on which the borrower is charged, such as Treasury Bills, national/regional Cost of Funds, etc., and represents the cost of the loan to the lender)
 - **Margin** (This is how much more than the index the borrower is charged. For example, if the Index is at 5.625, and the margin is 3.0, the rate the borrower is charged is 8.625.)
 - Is there any possibility of "**Negative Amortization**"? If there are "payment caps" without also having "interest rate caps", the loan during a given period may actually cost more than the bank is asking you to pay. When this happens, the bank places any excess of cost onto the balance of the loan. Obviously, it is critical for a borrower to know in advance if this possibility exists with his/her loan.
 - Is this loan "**Assumable**"? One of the very distinct advantages of an ARM is that the majority of them are assumable! Let's say you have a loan that started out at 5%, has a lifetime cap of 6% more - a total of 11%. Now let's say you want to sell your home and the prevailing rate is 14% (and many of us bought homes when rates were even higher than that!) Do you think your ARM might help you sell your home in such a market? Absolutely!

A few more words about "Assumable" mortgages - If a loan is assumable, this means a borrower "takes over" the owner's loan balance and payment, and the downpayment for that home would be the difference between the price of the home and the balance on the mortgage. It must be the FULL difference in the majority of cases. Most lenders will not allow a borrower to have a portion of that difference made up through an additional loan.

- **FHA LOANS** - Federal Housing Administration loans are loans insured by the federal government originally designed to enable people with more modest income and/or lesser

cash available for downpayment to still be a part of that great American dream ... home ownership. The FHA requires the borrower to pay what is called MIP (Mortgage Insurance Premium) to insure the government against default by the borrower. This MIP premium, unlike PMI required by conventional lenders in certain circumstances, is required on ALL FHA loans, regardless of the downpayment amount. In more recent years, FHA loans have become extremely popular, particularly among, though not restricted to, first time buyers. The maximum loan amount available with the FHA changes periodically, so check with your lender for current limits in your area



- ❑ **VA LOANS** - Guaranteed by the Veterans Administration, these are loans available to qualified veterans, and requiring no downpayment. They, too, require that the MIP (Mortgage Insurance Premium) be paid. As with the FHA, there are maximum loan amounts with the VA.
- ❑ **COMMUNITY HOME BUYER'S PROGRAM** - This is a conventional mortgage program which competes favorably with FHA for some buyers. It has strict qualification requirements pertaining to the buyer's income and the mortgage amount, but rates and terms are very competitive, and a buyer can purchase with as little as 3% down -payment. Ask your lender for specific details.
- ❑ **LEASE CONTRACT, CONTRACT FOR DEED, RENT WITH OPTION** - These are among the lesser utilized forms of financing property. In the event you are not able or choose not to utilize one of the more traditional forms of financing, ask your Realtor whether these may be options.

FINDING YOUR HOME

There are number of methods for finding a home ... and there are a number of types of homes from which to choose. Let's begin with a discussion of the **Types of Homes**:

- ❑ **Single Family Detached** - These are homes that stand alone on their own piece of land. Owning one of these means you own the house, the vegetation, the land, and anything permanently attached to the land.
- ❑ **Single Family Attached** - The same type of ownership applies as above, except houses are physically attached to one another. Single family ownership means that there are no association fees or memberships involved. Quite often, these single family attached homes appear as townhomes - it is actually the type of ownership which distinguishes them, so you can't tell just by looking at the exterior whether you are seeing a single family attached home or a townhome.
- ❑ **Duplexes** - These, like single family attached, provide similar ownership to a single family home, except in the case of a duplex, there are just two units attached rather than a row of units. A duplex can be configured with the two units side by side, or as an upstairs/downstairs configuration.
- ❑ **Townhome** - These are generally found in rows of two to eight or more. Each home has its

own lot, and outside maintenance of the building and lot is taken care of by an association for a monthly fee. The notion that these are like apartments is generally unfounded because they typically were built more like homes with care taken to make them more soundproof, etc.

- ❑ **Leisure Homes or Patio Homes** - These are the converse of those homes that look like townhomes but are actually single family attached ... Leisure/Patio homes look like single family homes (no attached exterior walls) but actually have similar characteristics as townhomes. There is an association involved which is responsible for, at the very least, lawn maintenance, snow removal, and maintenance of any common areas. Of course, there is a monthly association fee.
- ❑ **Coach Homes** - May also be referred to as "quads", short for quadrominium. These are configured 4 to a building and fall under the same category in terms of type of ownership as the condominium.
- ❑ **Condominium** - In general, condominiums appear much like apartment buildings, and, in fact, some of them were converted from apartment buildings. However, the majority were originally built as condominiums with stringent construction guidelines having to do with soundproofing, firewalls, etc. One distinction needs to be made between "condominium" ownership versus "townhome" ownership, and that has to do with whether there is any ownership of the land, or is it just the building. In the case of condominium ownership, you own only your unit in the building.



IMPORTANT NOTE: Some people erroneously believe that multi-family structures tend to be harder to sell and don't appreciate in value relative to single family homes. Years ago, before their acceptance as a viable alternative to the single family home, this may have been true. However, with their broad acceptance in recent years, they have become an excellent in-road to the market as well as an excellent investment. Now, once you have determined which type or types of homes you are going to consider, the next step is to decide **Which Home-Search Process(es)** you will use. Your options include:

- ❑ Watching newspapers, real estate publications (like Homes Magazine, etc.)
- ❑ Driving around in the areas you like looking for "For Sale" signs
- ❑ Watching for "Open Houses"
- ❑ Call all the "by owner" sellers in the area
- ❑ Search for yourself using the internet. **NOTE:** The Web is a wonderful resource that has an abundance of information. Much of that information is quite good....**BUT**....there is also considerable MIS information there as well. And how do you know what is good material and what is full of errors, inadequacies, outdated info, etc.? The fact is you don't know. It's a place to **START**...but it can't give you real guidance, it can't advise you or represent you, and it can't protect your interests.
- ❑ Or, you could interview and select a Realtor to help you organize a plan which will include all the pre-qualifying discussed earlier plus provide assistance with.....
 - Reviewing with you which communities offer the kind and price range of housing



that fits your needs, and which specific properties in those areas are currently available.

- Discussion of pre-approved mortgages and the advantages of applying for a loan prior to contracting on a home...not the least of which is the advantage it affords you in the negotiating process.
- Determining what specific items need to be included in an offer to purchase, and the impact of those items
- The Negotiation of the Offer with the seller ... this is often a very emotional part of the purchase and feelings can get carried away when large dollars and personal egos get involved
- Whether to have a home inspection on the property, and who to use
- Getting a good Real Estate Attorney to protect your legal interests
- Applying for the loan and monitoring it's progress through to closing ... and knowing when things are taking dangerously long wherein they may impact not only the date of closing, but also your ability to close at all

In the event you decide you would like the professional services of a Realtor, take a bit of time to do your homework - interview several agents and select one with whom you feel confident and comfortable - then stick with that agent. You will get much better service from a Realtor who has your loyalty and knows that they eventually will get compensated for their time. Remember, Realtors are paid a commission on the sale of a home and that is typically their only compensation. So if you go out 5 Sunday afternoons to look at homes, then go off to look for a few more weeks with a few other Realtors, those agents have done all the research and preparation work for free. How hard would you be willing to work if your boss said "I want you to work very hard to do a great job for me, but don't be surprised if you don't get paid!"

Once the decision is made as to how to go about the search, these are some of the places where you might find that special home:

- ❑ **Multiple Listing Service** - The MLS provides computer access to all homes listed for sale by any member Realtor. All homes are accessible by all member Realtors, regardless of company affiliations, so your Realtor can help you with any home listed by any Realtor. This is by far the best source for the largest number of available homes.
- ❑ **New Construction** - It used to be that builders could offer new construction homes at a lower cost than existing homes, but most new homes are now considerably more expensive than comparable existing homes. Builders sometimes offer special incentives to entice prospective buyers, but those incentives generally are padded into the total cost of the home. It also used to be true that if a buyer sought out a builder on their own, they could negotiate a better price on a particular home than if they contacted that builder through a Realtor, where the builder would be obligated to pay a brokerage fee to the Realtor. With very rare exception, builders consider Realtor commissions a cost of doing business, just like advertising and their other overheads, and commissions are spread over the entire cost of a project rather than affixed to any one specific property. In general, the

builder offers exactly the same price, terms, incentives whether there is a Realtor involved or not.

- ❑ **Advertisements, Homes Magazines, etc.** - Again, your Realtor can help you with any home that appears in ads from any source. Although you could call the listing offices of any properties which you see advertised, but you will find that each office will require that you speak with a Realtor in that office, who will, in turn, ask you a lot of questions and try to get you to work with them ... you will find that you repeat the same information over and over again, wasting a great deal of your time, and may notice some discomfort as they, too, will be trying to get you to see property with them. The reality is you can give the list of properties about which you have questions (where they are located, room sizes, schools, price, availability, etc.) to your Realtor, and she/he can generally get that information very quickly for you. By the way, don't ever feel this is "bothering" your agent. Your agent will eventually get paid for their efforts, and this is part of their job. If your particular agent isn't willing to perform this little bit of effort for you, **FIND ANOTHER AGENT**. You may find your agent also unwilling to be "bothered" with the details of your transaction when you do find your home ... and that's not the type of agent you deserve.
- ❑ **Signs in Lawns** - As you drive around you may see a home for sale that looks interesting to you. Simply jot down the address and street, the name of the agency with whom the home is listed, and their phone number. Your Realtor can then get the specific information on the property, and check to see if the home is even still available for sale (many Realtors do not put a **SOLD** sign on a property until the buyer has their mortgage approval, so many of the homes you see with signs are already sold and simply awaiting closing). Even the newest properties listed with any Realtor are available to all Realtors in the Multiple Listing Service within a matter of hours of signing the listing agreement.
- ❑ **Open Houses** - You've driven around and seen Open House signs, of course. An Open House is manned by a Realtor who is waiting to help prospective buyers. No appointment is necessary to view the home. Bear in mind, however, that the agent manning the Open House is typically the Listing Agent who owes fiduciary responsibility to their seller. Should you wish to purchase that home, and you too are working with that agent, you will not be able to receive full agency representation. If you really do want to look at a home on an Open House, simply explain to the Realtor conducting it that you are working closely with another Realtor. Most professional Realtors respect that relationship and will be happy to show you through the property and answer your questions. If that Realtor asks for you to sign a guest register, simply put "Customer of _____" and put your Realtor's name and firm on the registry. If your Realtor has been working hard for you, and you know that you want them working with you to negotiate on whichever home you finally purchase, you might even confirm with the Realtor conducting the Open House that they will honor your Realtor's position. I know of no professional, ethical Realtor that would refuse. If the Realtor does refuse, however, you may not wish to sign the registry at all ... I even know of some buyers who



simply left the home and asked their own Realtor to show it to them at another time.

- ❑ **For Sale by Owners** - These are homes that people are trying to sell by themselves. Often they are doing this because they rejected the opinions of value indicated by one or more Realtors' Comparative Market Analyses, or they simply want to "save the commission". They are usually priced as much as, or even higher than, comparable properties currently on the market with a Realtor, but without the benefit of a professional's expertise. Brokerage fees are incorporated into an appraisal of the value of a home. If a buyer is going to pay a price for a home that assumes a professional's commission, wouldn't it make sense to be benefiting by that professional's service and knowledge? Negotiating the financing, all the details of the transaction, are otherwise left up to the buyer and seller who are not trained in the potential pitfalls and intricacies of the sale (would you fix your car, repair a roof, do electrical work or plumbing, etc., without the benefit of the required training? Even more so, would you pay the price for a fully installed kitchen, for example, only to find you have all the cabinets, plumbing, appliances, etc., but have to do the work yourself? Why leave one of the largest investments of your life in the hands of a novice?)
- ❑ **Target Prospecting** - There are times when a buyer has very specific needs and/or wants and has determined they are looking for a very specific type of home, floorplan, subdivision or neighborhood, and a property meeting their needs is not currently on the market. An aggressive, resourceful Realtor can canvas a particular "target" area in search of that home, and can sometimes find that seller who had not yet gotten his home on the market. Building a close relationship with a competent, professional Realtor and setting up an organized program is not only the most efficient way of finding a home, it is also the way you have the most confidence that your final decision is a sound one!



SOME OFTEN OVERLOOKED ISSUES & RECENT DEVELOPMENTS

Real Estate is an evolving industry, and, as such, what are considered "common practices" are often changing. Occasionally issues come to the forefront that can certainly impact viability of a particular home purchase. At the very least, they are issues of which you should be aware and, depending on the property, about which you may wish to seek specific professional advice.

RADON – Radon is a naturally occurring gaseous element. It exists in the ground as well as in the air and water. Elevated levels of radon can occur in our homes, and high levels of radon exposure have been linked to cancer. As a result, I'd recommend you consider having your prospective home tested for radon. This is NOT part of a regular Home Inspection...it is a totally separate test. There are a variety of methods of testing. My understanding is that a multi-day digital printout report (rather than the test-tube or bottled type versions) is the best indicator of radon levels. There are "mitigation" measures available to reduce radon to healthier levels.



MOLD - According to the EPA, "Molds are usually not a problem indoors, unless mold spores land on a wet or damp spot and begin growing. Molds have the potential to cause health problems. Molds produce allergens (substances that can cause allergic reactions), irritants, and in some cases, potentially toxic substances (mycotoxins). Inhaling or touching mold or mold spores may cause allergic reactions in sensitive individuals. Allergic responses include hay fever-type symptoms, such as sneezing, runny nose, red eyes, and skin rash (dermatitis). Allergic reactions to mold are common. They can be immediate or delayed. Molds can also cause asthma attacks in people with asthma who are allergic to mold." There are many varieties of mold...and some that are more toxic than others. If you notice mold in a property you wish to purchase, it would be wise to get an "expert" opinion as to the type of mold and how to eliminate it.

DRYVIT (and all EIFS) – Dryvit is a particular EIFS (Exterior Insulation and Finish System) that has been used to visually simulate a stucco exterior (many call it "synthetic stucco"). Beautiful to look at, an improperly installed EIFS can cause substantial damage to property in a very short period of time. The culprit is generally moisture that, when trapped behind the EIFS begins to rot the supporting wood behind it. If you are considering the purchase of a home with an EIFS exterior, consult an EIFS specialist to determine whether moisture damage exists.

C.L.U.E. Report – Insurance companies have combined to create a "shared" claims database whereby one insurance company has access to property claims of another company. They also share such claims history on individuals. When you purchase a home, your lender will require that you have homeowners insurance before they will give you your loan. If the home you are purchasing has had too many claims within the past 5 years...or you have made too many homeowner claims during that 5 years...or the combination of the property claims and your own have been too high during that 5 years, you may be unable to get insurance (and your loan) or your insurance premium may be excessive. This is a very recent phenomenon, but it is none the less very real. To protect yourself, apply for insurance immediately upon having an accepted contract on a home. Your insurance company will be able to let you know if there is a problem.

SIGNING ON THE DOTTED LINE!

After hunting, and hunting, you've finally found the right home for you! Now what! First, you want to be sure that any **DISCLOSURES** to which you are entitled are available for you. These include:

- Seller's Disclosure** - Consumer laws require that the buyer receive in writing Disclosure from the seller of any defects in the property of which the seller is aware.
- Lead Based Paint Disclosure** - Any home built prior to 1978 has the possibility of lead based

paint. You need to be made aware of that fact. Your Realtor should be able to supply you with information about Lead Based Paint and what it means if your home has it. There are precautions you can take to protect yourself and your family.



□ Next, with your Realtor's help, you make an offer to purchase that home, in writing, using a standardized prepared contract form. Remember, your Realtor is not an attorney, and is simply authorized to fill in the blanks. The standard MLS contracts were designed, therefore, to make it as simple as possible to create a clear understanding between the parties involved of what each of the parties wants and expects. Although specific contracts vary from one county to another, all of them have specific elements in common. Let's go over those elements in some detail. Remember, the purpose of the contract is to put in writing the terms as understood by both buyer and seller, and to clarify the intent, in good faith, of each.

- **Purchase Price** - This is generally the item in the contract that gets the most attention by both buyer and seller. Your agent, particularly if they are working for you as a Buyer's Agent, can do a complete market analyses on that property and offer you guidance as to its value in the marketplace. Not only that, they can also provide you with insight as to any potential resale implications. For example, if the home you love happens to back up to a busy road, a landfill, a lake, etc., that location has "salability" implications which you agent can address.
- **Personal Property** - This is the part of the contract that outlines which specific items of personal property are to be included with the home. It's generally a good idea to include brand names, if known, colors, etc. to avoid any potential problems. How do you determine what is considered personal property? A general rule of thumb would be: anything physically attached to the property which, once removed, would leave negative evidence of it having been there would be considered part of the real estate. For example, if you remove curtains, nothing negative happens to the property - they are personal property. If you remove the rods, holes are left in the walls - they are part of the real estate.
- **Earnest money** - This is your "good faith deposit" which accompanies the offer to purchase. This may be in the form of an earnest money note (like an IOU), a check, or a combination of the two. If the offer is successful, and a note was used, that note becomes due and payable according to the terms agreed upon. At that time, the buyer brings a check to the Realtor to redeem the note, and that money is placed into a special escrow account to be held until closing. It is important to remember that this earnest money is part of the down-payment on the home, not additional to it. If your purchase requires that you obtain financing, and most do, and you are unable to get a loan after due diligent effort in accordance with the terms of your contract, you will likely get your earnest money back. If, however, you simply "change your mind" about going ahead with the contract and closing on the transaction, and decide not

to comply, you would then be in default of the terms of the contract, and would most likely forfeit your earnest money. This contract is a serious matter ... many lives are impacted by the decisions involved, so careful consideration should be given each and every step.



Dates reflected in a contract provide a guideline in the progression toward your home ownership. These dates include:

- **Contract Date** itself. The last item to be recorded on the contract document itself is the date ... this means that while negotiations are continuing, while initials are being gathered, no date appears. Once all agreements have been made, all initials on all changes have been recorded, then the date appears. This is because **Contract Date** is when the clock starts ticking on many of the other elements of the contract. For example, the timetable for home inspections, attorney's approval, and redemption of earnest money notes, etc. are all tied to the contract date.
- **Mortgage Commitment Date** - Bear in mind that it may take somewhere between 30 and 60 days to secure a mortgage commitment (although there are a few lenders who can accomplish this task in as little as a few days.... and there have been times in the past, because of excessive application activity, where it has taken even longer) and this also varies depending upon the type of mortgage you are seeking as well as current market conditions. This means that you must apply for that mortgage in sufficient time to allow for processing of your application.
- Next is the **Closing Date**. This is the day on which you actually become the owner of your new home! It is also known as **Settlement Date**. Get your fingers ready.... you'll need to sign a lot of documents, most of them pertaining to your mortgage.
- One more critical date to remember is the **Possession Date**. This may or may not be the same as your **Closing Date**. If it is any time other than your date of closing, your Attorney will guide you through the procedures, rentbacks, prepossession or postpossession terms, etc., as applicable.
- **Contingencies** - There may be any number of conditions which must be satisfactorily met in order for your contract to remain in force.
 - One contingency which has gained popularity in recent years is the **Buyer's Inspection**. This is where the buyer has a limited period of time at the beginning of the contract during which he can bring in an independent professional inspector, uncle George, or whomever, to go through the home to insure he's getting basically what he expected he was going to get when he contracted on the home. Bear in mind here that **NO HOME IS PERFECT**, and these inspections are designed to forewarn a prospective homeowner of costly conditions of which he may not have been aware at the time the contract was negotiated. **IT IS NOT MEANT TO BE AN EXCUSE TO RENEGOTIATE THE CONTRACT AFTER THE FACT** over minor obvious conditions of which the buyer was, or should have been, aware. For

example, let's say the inspection report confirms the storm door at the front of the home has a broken window in it. The buyer saw it before he negotiated his offer, he knew the condition existed and made the offer he made on that basis. It's really inappropriate to, after the fact, try to get additional compensation from the seller for something that was already considered in the original offer.



(Note: ALL seller's, whether their property is listed with a Realtor or not, are required by law to provide you with a "Seller's Disclosure" of any material defects to their home. These are defects of which the seller is aware ... he is NOT required to perform any special inspections to discover defects of which he is not already aware. In other words, if there are loose roof tiles which are causing water leaks into the attic, but there is no evidence of any leak obvious...the seller may not know he has a leaky roof and cannot disclose what he does not know).

- Probably the most common contingency is that requiring either the **Sale of or Closing on the Sale of** a buyer's current home. Bear in mind that if you purchase a property subject to the sale or closing of your property, the property you wish to purchase will most likely still be marketed to other prospective purchasers. Should another offer come in on that property, there are a number of procedures to notify you of that offer, and provide you with options on how you want to handle the situation. Basically, one option is that, if you are unable to purchase the new home unless you sell your current home, you may simply sign a cancellation of your contract, and the seller is free to accept his other offer. In this case, whatever earnest money you had deposited will most likely be refunded to you in full. (Certainly, every contract is individual, and there may be conditions specific to yours that would preclude a refund. Your attorney will advise you on your specific situation.) An alternative to the above is that, in the event you are financially able to close on the purchase of your new home without having sold your prior home, you may wish to "drop your contingency" in which case you will close on your new purchase regardless of whether your current home is sold. If you choose this option, be prepared for the seller's attorney to further require that you waive your financing contingency to confirm that you will, in fact, close on your purchase. What this would mean, in essence, is that if you fail to secure a mortgage, you would be in default of your contract and you could lose your entire earnest money deposit, and you might even be liable for various other "damages". Consult your attorney, and exercise caution. This option should not be taken lightly because there are risks ... but for many this is one way to insure the buyer gets the home they really want!
- The **Financing Contingency** is, without a doubt, the single most widely utilized contingency, and it is likely the one area that generates the most

questions. Careful consideration should be given as to the type of financing to be used, the timetable required to secure it, the maximum acceptable interest rate, closing points, etc. It is important to remember that, although it is possible for a buyer to change his mind as to what type of financing he wishes to secure, those terms which are outlined in the contract in writing are the ones that are enforceable. Let me explain briefly: Let's say that, according to the terms of the contract, you would be getting an FHA mortgage with a certain interest rate and a certain maximum number of "points". Then, after the contract is agreed upon, a family member convinces you that they can get you better terms through their bank ... but the bank ONLY offers conventional mortgages. So, you apply with the bank. In the event you are unable to secure that conventional mortgage (bear in mind that FHA, in general, has less stringent requirements than conventional lenders) and the time allotted for securing your loan has run out, you could find yourself in default of the contract terms and you could risk losing your earnest money because you did not make a good faith effort to secure the type of loan to which you had agreed in the contract. To avoid the problem, either apply with the bank PLUS apply for the FHA mortgage, or request from the seller an OK to seek a specific other form of financing.



The subject of the negotiation of "**points**" merits some elaboration here. Inasmuch as "points" represent a portion of the costs incurred by a potential buyer, they are a factor in the negotiation on a piece of property. Occasionally, a buyer asks that the seller pay some or all of the "points" required for the buyer to get a certain loan. This becomes of particular value in the case of a buyer who is well qualified to make their mortgage payment, but is shy of cash for downpayment PLUS closing costs. A buyer in this case may opt to offer the seller more than they would otherwise offer, in exchange of the seller's covering their closing costs. For example, an offer of \$100,000 with the seller paying 2 points on the buyer's 95,000 loan is actually a \$98,100 offer.

A WORD ABOUT ATTORNEYS

Whether or not to secure the services of an attorney is certainly your own choice. Although one is not required for a purchase, I strongly recommend retaining one. A Realtor is prohibited from giving any legal advice. Should a problem arise, and they sometimes do, the Realtor is caught with their hands tied. In the largest financial transaction of your life, with all sorts or complicated legal documents, doesn't it make good sense to have expert legal advice? A WORD OF CAUTION: When selecting an Attorney, be sure he/she is one who is active in LOCAL Real Estate Law. Cousin Ned who specializes in mergers and acquisitions for some big city law firm can easily cost you \$\$\$\$ because of his inexperience in Real Estate Law. Would you go to your dentist for an appendectomy? I hope not! Most contracts have an Attorney's Approval or Attorney's

Modification, but ask your Realtor if the contract she/he uses has one. If not, require that Attorney Approval be incorporated in your offer. This allows for a specified period of time in which both buyer's and seller's Attorney may review the contract and make any modification they deem necessary. This is your safety net.



FOLLOW-UP - FINAL INSPECTION - CLOSING!

Once you've contracted on a home, had your home inspection (if one was agreed to in the contract), and applied for your mortgage, the toughest time of all begins.... the waiting! First, there's the credit check ... then wait ... then verifications of employment ... then wait.... then verifications of deposit ... then wait ... then the appraisal, the title search, the survey ... and of course the wait! During this time you'll find it particularly important to be working with a competent Realtor as you will rely on her/him to inform you as to the progress of your transaction, to remind you of things like redeeming your note, setting up inspections, ordering utility turn-ons, ordering insurance, and setting up closing details. Prior to closing you will have the opportunity to walk through the home to check to see that the seller is turning the home you contracted for over to you. You should check to be sure that everything that is supposed to be in working order is in fact working. You should expect to get the home in the same condition or better than you originally bought it, unless otherwise negotiated. Finally, buyer ... seller ... Realtors ... Attorneys ... Closers all get together at Closing (or Settlement), papers are signed, money is exchanged, and the **HOME IS YOURS!** At Closing, or soon thereafter, you take possession of your new home.

Let me be the first to say **CONGRATULATIONS!!!!** Welcome to the ranks of those **Great American Dreamers** whose dreams came true!



Hopefully, this booklet has answered most of your home buying questions - and perhaps it has generated others as well. Please feel free to call if you have any concerns or if I can be of service. You can get Much More Help on the Web with:

www.eHomeSmart.com (Website)

Judi@HomesLady.com (E-Mail)

Judi Bryan CRS,GRI,ABR,e-PRO

Broker

Executive Realty Group

(630) 605-8902 (Direct)

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