Home Buyer's Handbook

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Mission Statement

We understand that buying or selling a home is more than just a transaction: it's a life-changing experience. That's why our team of highly-seasoned professionals is dedicated to providing exceptional, personalized service for all of our clients. We take great pride in the relationships we build and always work relentlessly on the client's behalf to help them achieve their real estate goals. There's a reason our clients keep coming back to work with us on subsequent transactions – we foster relationships that last!

~ *Janet Marcum, Broker/Owner*

Introduction

Buying a home is a monumental decision. Typically, a home is the single most expensive asset most people acquire in their lifetime. The more prepared you are from the start, the less overwhelming and chaotic the buying process will be.

Our focus is to make the process as efficient and seamless as possible. It is our duty to support you in finding the right home with the best possible terms and to assist you through the entire buying process.

We have prepared this guide to help explain the process of buying a home. This material will help to familiarize you with the various activities, documents and procedures that you will experience along the way.

Marcum Real Estate has the resources, experience, and market knowledge to support you in achieving your dreams of home ownership, and we look forward to working with you. Let's get started!

Our Professional Relationship

AN OVERVIEW OF OUR PARTNERSHIP

A buyer's agent represents the consumer who is purchasing the property in the real estate transaction. The buyer's agent works directly for the buyer and has their client's best interests in mind through the entire transaction.

Our Commitment To You – We are full-time, real estate brokers and salespersons, educated in the legal aspects of real estate practice and licensed by the State of Texas. We abide by a strict Code of Ethics to provide you with the highest level of service. We commit to serving you with integrity, respect and confidentiality.

Skilled Service – A large part of our work is performed "behind the scenes": home searches, coordinating previews with home owners or agents, driving through neighborhoods, researching comparable sales, gaining market knowledge, researching trends, evaluating changing legislation, and maintaining our professional credentials. For every hour we spend showing you homes, we will spend numerous hours in preparation and follow-up. We constantly acquire information that will help us to better serve you.

How We Are Compensated – As a buyer, you do not incur a fee to have representation for your transaction. Our company is compensated by the seller, only when all of your needs have been satisfied and you take ownership of your new home. This affords our focus to be only on offering you the best service that you deserve and ensuring there are as few barriers as possible for you to get into the home you desire.

Services For Buyers

- Education about current market conditions
- Daily searches for appropriate properties
- Previews of homes when you're not available to see in person
- Immediate and as-needed showings of selected properties
- References to reputable lenders
- Experienced counsel when writing an offer
- References to qualified licensed inspectors
- Expert negotiations when repairs are deemed necessary
- Suggestions for cosmetic improvements or room layouts
- Instructions for utility set-up prior to close
- Detailed review of closing statements
- In-person attendance during signing of documents on closing day
- Continued service and counsel beyond the close of escrow

Home Buying Process Overview

WHAT TO EXPECT WHEN YOU ARE BUYING A HOME

Loan Consultation – We will provide you with guidance in finding a financial institution and support you in obtaining information on available financing options. A licensed loan officer can review your credit and income and help you determine a realistic range of affordability. Most importantly, he or she can provide you with a letter of pre-qualification, which is required when submitting an offer.

Evaluate Your Needs – We will meet with you to discuss your specific needs in a home and analyze your resources. We will establish a set of criteria about the type of home and features that are most important to you.

Market Education, View Properties, and Select a Property – We will research available properties and show you homes based on the criteria that we establish. As we view different homes, we will reassess your criteria. The more precise and direct you are, the more successful our search will be.

Structure an Effective Offer – Once you have found the home that you wish to purchase, we will do all necessary research to help you structure an effective offer. We will provide you with comparables in the neighborhood and/or surrounding areas. This will show you what properties are selling for to give you a better understanding of the offer price. We will write a clean and complete offer, and we will advise you on protective contingencies, option periods, customary practices, and necessary addenda. We will submit with your offer:

- ❑ Copy of your Earnest Money Deposit (Customary amount is 1% of the purchase price) and Copy of your Option Fee (ranges from $100 to $250 depending on popularity of property and how strong you want your offer to look)
- ❑ Copy of your Pre-Qualification Letter
- ❑ Copy of your proof of funds if you are planning a cash purchase

Present Your Offer – Your offer will be presented with the items outlined above, along with a personal statement, if appropriate for the situation. The seller has four options – to not respond at all, accept, reject, or counter. Our personal knowledge of your needs and qualifications will enable us to present your offer in the best light.

Respond to the Seller – When applicable, we will review the seller's response. If the seller has countered your offer, you will have the option to accept, reject, or counter. Our negotiating skills will benefit you in reaching a satisfactory agreement.

Open Your Escrow – When the offer is accepted and signed by all parties, you have a legally binding contract. Escrow will be opened and contractual timeframes begin. Escrow is the "clearing house" which ensures all parties follow the terms and timeframes of the contract. Escrow also receives, holds, and distributes all funds associated with your transaction. During escrow, time is of the essence. From the date the offer is accepted and escrow is opened, there are time limits surrounding:

1. Getting earnest money deposit check to title
2. Getting option fee check to the seller
3. Receiving disclosures and survey from the seller (if applicable)
4. Completing a full property inspection, which may include:

    a. Home Inspection
    b. Termite Inspection
    c. Roof Inspection
    d. Foundation Inspection
    e. Any other inspections, all up to the Buyer

5. Submitting all documentation to loan officer to obtain full loan approval

Remove Contingencies – Prior to closing, all of the contingencies of the Contract must be met, typically within 14-21 days from execution. We will coordinate the removal of these contingencies and review all documents with you. Typical contingencies include:

- Approval of the seller's reports and disclosures: Documents the seller provides to disclose defects, recent repairs, and all material facts about their home.
- Approval of the preliminary title commitment: This will show if anyone other than the seller has a legal claim on the property, including any taxes, liens, easements, and encumbrances.
- Approval of the HOA documents: This will outline the rules and restrictions in effect in your neighborhood.
- Loan approval, including an appraisal of the property
- Buyer's Investigations/Inspections

Close Escrow – When all of the conditions of the executed contract have been met, you will sign your loan documents and closing papers. You will deposit the balance of your down payment and closing costs to escrow, and your lender will deposit the balance of the purchase price. The deed will then be recorded at the County Recorder's office and you will take ownership of your new home.

The Loan Process

A GENERAL GUIDE

As your real estate agent, we can also help you select a mortgage lender. Once you have made your decision, these are the steps of the loan process:

Application Process – You will sit down with a lender or mortgage broker, who will ask you to complete a mortgage application and to provide copies of documents that verify your income and assets. Once an estimated sales price is discussed, the down payment, closing costs, and cash needed to close will be presented.

Mortgage Preapproval – The mortgage lender will review your income, assets, and credit history to determine if you qualify for the proposed mortgage, and then issue a prequalification letter. It is important to know your mortgage limit at the beginning of this process.

Escrow Process – Once your offer to purchase a home is accepted, the escrow process begins. The mortgage lender orders the appraisal (a report that assures you, as well as the lender, that your home is worth what you are paying for it), reviews the preliminary title report, and requests other supporting documentation. As it comes in, the documentation is checked for any irregularities and an initial underwriting review takes place, which may result in additional items being requested. ***Note that credit reports and appraisals may need to be paid for at time of service.***

Loan Submission – Once all the necessary documentation is in, the loan processor puts the loan package together, your loan agent prepares a cover letter, and your completed file is submitted to underwriting for approval.

Loan Approval (Underwriting) – Loan approval, or underwriting, generally takes anywhere from 24 to 72 hours, and it may take slightly longer if mortgage insurance is required. "Mortgage insurance underwriting" occurs when the borrower's down payment is ***less than 20 percent*** of the sales price. All parties are notified of the approval and any loan conditions that must be cleared before the loan can close. You may then remove your financing contingency after these conditions are met.

In general, lenders allow your total monthly housing costs to go as high as, but not be more than 30% of your gross monthly income. In addition, not more than 36% of your gross monthly income can be tied up in a monthly house payment and any payments on outstanding long-term debt.

Documents are Drawn – Within one to three days after loan approval, the lender prepares your closing documents, which are sent to the title or escrow company. Title prepares the final settlement statement and at that time, you will be informed exactly how much money you need to bring to closing. The escrow officer will call you to set up an appointment when the papers are ready for your final signature. The cash to close needs to be in the form of a wire or cashier's check, made out to the title company. ***No personal checks are accepted.***

Funding – Once all parties have signed the loan documents, they are returned to the lender, and the package is reviewed. If all the forms have been properly executed, the lender sends the loan funds by wire transfer and the title company deems the transaction "funded." This is when the home is officially yours!

Congratulations!

Checklist For Loan Application

Property Information

- ❑ Copy of the executed contract and property information
- ❑ Survey

Personal Information

- ❑ Social security number
- ❑ Marital status
- ❑ Number and age of dependents
- ❑ Current address and telephone numbers
- ❑ Addresses for the past seven years (if more than one)
- ❑ Current housing expenses (rent, mortgage, insurance, taxes)
- ❑ Name and address of landlord/mortgage holder (past two years only)

Employment history and income

- ❑ Two years of employment history, with complete details of each position
- ❑ Recent pay stubs and two years of W-2 forms
- ❑ Tax returns and financial statements if self-employed
- ❑ Records of dividend and interest received
- ❑ Proof of other income

Assets

- ❑ Information about all bank and money market accounts
- ❑ Two months of bank statements
- ❑ Current values of stocks, bonds, mutual funds and other investments
- ❑ Vested interest in retirement funds
- ❑ Value of life insurance
- ❑ Information about any cars you own
- ❑ Information about any real estate you own
- ❑ Value of any significant property you own

Liabilities and debts

- ❑ Itemized list of all current debts: loan and credit cards and other bills
- ❑ Written explanation of any past credit problems
- ❑ Full details of bankruptcy during the last seven years, if applicable

Do's And Don'ts During The Loan Process

Certain actions AFTER you have been pre-approved may directly and negatively affect the loan process.

- **DO NOT make any major purchases until *after* escrow closes.**

  Often times, people decide to buy new items for their new home. New purchases may affect your credit score and debt ratios, and may directly reduce the amount of a home loan for which you qualify.

- **DO NOT run your own credit score prior to applying for a loan.**

  Running your credit score too often within a certain period of time may cause credit scores to fall. Your lender will run your credit. Ask them to provide a copy of your credit report and review it with you as part of the application process.

- **DO NOT apply for any other credit.**

  Do not apply for a new credit card, major retailer credit card, line of credit or any other credit related account of any kind. Even if you do not plan to use it until ***after*** you are in your new home, it will affect your credit ***now.***

- **DO NOT continue to shop your loan.**

  Once you are pre-approved, do not shop your loan. Conduct sufficient research ***before*** you take the pre-approval step. Every time you shop your loan with a lender, your credit scores are run. The more times your credit is run, the more your scores are lowered. It is possible that they may be lowered to the point where you no longer qualify for your pre-approved loan package.

- **DO NOT make large deposits that cannot be documented.**

- **DO NOT pay any judgments/collections unless instructed by lender.**

  You may have a judgment, collection or lien on your credit and want to pay it off. ***Do not*** do this, unless instructed by the lender. Before you buy or pay on anything while in a transaction, take the time to call your lender.

- **DO NOT change loan companies once you are in escrow.**

  Once you are in escrow, the timing of everything becomes very critical. For this reason, you must not change loan companies. In doing so, you could seriously jeopardize your transaction. If the time periods for removing contingencies are not kept, the seller has the right to cancel the contract and put the home back on the market. If this happens, you stand a chance of losing any monies you have paid for inspections, appraisals, etc.

- **DO NOT co-sign for anyone.**

  Co-signing while you are in escrow will change your debt to income ratio and, ultimately, your loan to value ratio. This has a direct impact on your loan amount, interest rate, and mortgage payment. Consequently, you may not qualify for the loan you were originally approved for.

- **DO NOT purchase a home with excessive health and safety issues unless you are willing to make repairs prior to close.**

- **DO inform your real estate agent if you are connected in any way to a short sale or foreclosure.**

  If you are renting a home in foreclosure, if your spouse or even ex-spouse had a foreclosure during marriage, or if you are taking a mortgage interest deduction on a home that is pending foreclosure, inform your agent.

- **DO inform your real estate agent and loan officer of ANY changes.**

  This can be in employment, income, assets, credit cards, or loans. You should have the same job when they verify employment on funding day as you did when you submitted the original loan documentation.

- **DO continue to make all of your debt payments on time.**

- **DO inform your loan officer of any student loans that have been deferred, but are due within the next three years.**
  These need to be counted against your debt to income ratio.

- **DO document all gift funds.**

  You must show paperwork of money coming into and out of the source of funds account. The source of funds account cannot have any big deposits unless the source can be verified. The funds cannot be borrowed. If you can, deposit all gift funds as soon as possible, so that they can be seasoned in two months.

- **DO check your lender's truth-in-lending statement.**

  Make sure you get a copy of the Truth-In-Lending statement from your lender. Read it carefully and ensure that you understand it.

- **DO inform person making payments to keep paying on time until closing, if you are a co-signer.**

Components of A Mortgage Payment

Your monthly mortgage payment is made up of several components. This housing expense is commonly referred to as "PITI" or principal, interest, taxes, and insurance. PMI (see below) and homeowner's association dues may also make up a portion of your total payment.

Principal – The original balance of money loaned, excluding interest - also, the remaining balance of a loan, excluding interest. The interest is calculated on the principal.

Interest – The charge for the use (loan) of money.

Taxes – The county assessor charges property tax based on the value of your home. Often there are multiple components – county, city, school tax, etc. Taxes are payable beginning in October and are typically due by 12/31. If your down payment is less than 20% of the sales price, your lender will manage an escrow account for you. Total annual property taxes will be divided by 12 and the monthly amount will be impounded, to ensure there are enough funds available when taxes become due.

Homeowners Insurance – It's your decision which agent you use for homeowner's insurance and which policy you select. If your down payment is less than 20% of the sales price, your lender will manage an escrow account for you. The total annual premium for the policy will be divided by 12 and the monthly amount will be impounded, to ensure there are enough funds available when the policy comes up for renewal. In order to accurately estimate what your total monthly mortgage payment will be, it is important to start looking for insurance immediately upon acceptance of your offer.

PMI – (Private Mortgage Insurance) – Depending on the amount of your down payment, you may be required to have PMI. A down payment of less than 20% typically requires PMI, unless you pay an up-front PMI amount at closing. Because loans with small down payments involve substantially more risk for the lender, they need protection in case the loan goes into foreclosure. Because this insurance is available, lenders can offer loans with lower down payments.

An FHA loan will involve a fee for mortgage insurance called MIP or Mortgage Insurance Premium. This is an upfront fee, but is often rolled into your loan. A monthly fee is also assessed. A VA loan involved a funding fee, which may also be financed.

The Inspection Process

While property inspections provide no guarantee, they will educate you as to the condition of a property. Inspections are performed during the option period, and ***if inspection results are unsatisfactory, or an agreement cannot be reached as to who will pay for any necessary repairs, you have the option to withdraw your offer and/or cancel your contract. Time is of the essence.***

In addition to the professional inspections listed below, ***you should take a close look at the property yourself.*** For example, inspect cupboards, doors, windows, flooring, counter tops, bath and kitchen fixtures, built-in appliances, stairways and banisters.

Termite Report – The Wood Destroying Insect Report, commonly referred to as a termite report, will indicate any type of wood destroying organisms that may be present. The inspector may also be able to determine if there were ever any active wood destroying organisms, even if no longer active. This includes termites, fungus, dry rot, etc. The home inspector can usually perform this service in conjunction with the physical home inspection.

Physical Home Inspection – Usually done by a certified General Home Inspector, a Physical Inspection is a thorough inspection of the house. The inspection results in an overall assessment of the present condition of the property.

If conditions warrant, the Home Inspector may recommend additional inspections such as ***roof, pool, chimney,*** etc, to be performed by experts in those areas.

Escrow And Title

The escrow is a legal procedure for handling the details of the transaction from the time the contract is ratified until the title is transferred and the sale is completed. The escrow is managed by a title company.

The escrow holder's duties include:

- Serve as the neutral agent and the liaison between all parties
- Prepare the escrow instructions
- Request a Preliminary Title Search to determine the status of the title
- Comply with lender's requirements as specified on instructions to escrow
- Receive and handle purchase funds from the buyer
- Prepare or secure the deed and documents related to the escrow
- Prorate taxes, interest, insurance and rents.
- Secure releases of all contingencies/other documents imposed on escrow
- Request the deed and any other documents
- Close escrow pursuant to instructions supplied by the seller, buyer, and lender, if any.
- Disburse funds as authorized by the instructions, including charges for title insurance, recording fees, real estate commissions and loan payoffs.
- Prepare final statements for all parties involved that account for the disposition of all funds held in the escrow account.

The escrow is usually opened by the first business day after mutual acceptance of the contract and the buyer's earnest money is deposited into escrow.
Once the offer is accepted and becomes a binding contract, the buyer has three days to place the deposit into escrow. A standard deposit is typically 1% of the total purchase price. This deposit is applied to your down payment and closing costs at closing.

You may receive your deposit back if you cancel the contract anytime *within* the option period or for a reason allowed under another contingency. If you choose not to purchase the property after all contingencies have been satisfied, the seller may have the right to keep the deposit. If the *seller* does not fulfill his/her obligations, your deposit will most likely be returned to you.

The escrow officer, a neutral third party in the transaction, must complete specific instructions, received from the buyer's and seller's agents, before title is transferred and funds are disbursed. The buyer's and seller's instructions must match in order for the escrow to move forward.

The length of escrow ranges from a few days to several months, depending on the terms of the executed contract. On average, escrow closes between 30 and 45 days from execution.

Preliminary Title Report – The title company searches the public records for pertinent information about the property. Who is the owner of record? What liens exist against the property? What easements affect the property? Are there any judgments that might have to be cleared before title can be transferred? Any such items must be resolved during the escrow period.

Title Insurance – Title insurance provides protection against loss arising from problems (forgeries, errors in public records, etc) connected to the title to your property. The deed to your new home is not enough to ensure clear title. It does not prove that the person described as the seller is actually the clear owner, and it does not eliminate claims or rights that others may have on the property.

Title insurance premiums are paid only once and insure the buyer for as long as they or their heirs own the property. Fees for title insurance are less than one percent of the purchase price of the property and are typically paid by the seller, unless negotiated differently on the contract.

The ALTA (American Land Title Association) title insurance policy protects the **lender's interest** in the property.

The owner's title insurance policy is issued to protect **your ownership** for the full amount you pay for the property. It is designed to protect you against the following potential issues:

- A forged signature on the deed
- Mistakes in the interpretation of wills or other legal documents
- Deeds delivered without the consent of the grantor
- Deeds and mortgages signed by persons not of sound mind, by minors or someone listed as single but in fact, married

- Impersonation of the real owner
- Errors in copying or indexing
- Falsification of records
- Undisclosed or missing heirs
- Recording mistakes

Overview of Closing Costs

In addition to the previously mentioned principal, interest, taxes, home owner's insurance, private mortgage insurance, and title insurance costs, the fees noted below may be included in the final settlement.

Appraisal Fee: A one-time fee that pays for an appraisal - a statement of property value for the lender.

Credit Report Fee: A one-time fee that covers the cost of the credit report.

Escrow Fee: The cost of the title company facilitating the transaction.

Home Warranty Plan Fee: Cost for plan that protects against failure of mechanical systems within the property. Who pays for this is often negotiated in the contract.

Inspection Fees: Costs associated with home inspection reports, termite/pest inspection reports, roof inspection reports, chimney inspections reports, etc. These are typically paid at the time of service and rarely show up on the final settlement statement.

Loan Discount /Points: An amount equal to one percent of the principal amount of the investment or note. The lender assesses loan discount points at closing to adjust the yield on the loan to a position competitive with other investments.

Loan Origination Fee: A fee or charge for work involved in evaluation, preparing, and submitting a proposed mortgage loan. The fee is limited to one percent for FHA and VA loans.

Transfer and Assumption Charges: Fees charged by a lender to allow a new purchaser to assume an existing loan.

Recording Fees: Fees assessed by a county recorder's office for recording the documents of a real estate transaction.

Allocation of Costs

Sellers Generally Pay…	Buyers Generally Pay…
• ½ of Escrow Fee • Real Estate Commissions • Title Policy (according to contract) • Document Preparation for Deed • Payoff of all loans in seller's name (or existing loan balance if being assumed by buyer) • Interest accrued to lender being paid off • Home Warranty (According to contract) • Any judgments, tax liens, etc., against the seller and Recording Charges to clear all documents of record against seller • Tax Certificate • Tax Proration (for any unpaid taxes up to time of transfer of title) • Any unpaid Homeowner's Dues • Homeowner's Association Document Fee • Any and all delinquent taxes	• ½ of Escrow Fee • Recording Charges for all docs in buyer's name • Home and Termite inspection • Tax Proration (If sellers have pre-paid taxes) • Homeowner's Association Transfer Fee • Loan origination charges • Interest on new loan from date of funding to 30 days prior to first payment • Appraisal • Assumption/Change of Records Fees for take over of existing loan • Insurance Premium for the first year • Courier or Mobile Notary Fees • Impounds for taxes and insurance

New Construction Homes

There are benefits to working with a Realtor on a new construction home transaction. If you are considering buying a brand new home, there are a few things you need to know:

- **New homes are often more expensive to purchase than resale homes.**

  Resale homes can depreciate in value each year. The actual cost of a home goes down because it is getting older; it's the *property the house is on* that appreciates. In contrast, a new home is built at the current market rate for materials, which is always increasing.

- **New homes are more expensive to move into.**

  The model home you visit is shown with many upgrades. When you purchase a new home, if often does ***not*** include many of these extras. Purchasing a refrigerator, window coverings, and landscaping are added expenses you may incur. However, these items are often included with many resale homes.

- **For new homes, a buyer must use a seller's preselected Title Company.**

  Under normal circumstances, the buyer and buyer's Realtor can have a say in which Title Company used in a transaction. Many Realtors prefer to have this choice, as it means they will work with title officers they know and trust.

- **New home builders want you to be pre-qualified with their lender, even if you are already pre-qualified with another lender.**

  You have to fill out additional paperwork, and take another "hit" on your credit rating. New home builders want control over their buyers. Many builders make deals with specific lenders ahead of time to ensure there are no financing surprises and to get better rates on their construction loans. You may be able to use your own lender, but don't plan on it.

- **New home builders have very specific rules about you using a Realtor.**

  Most homebuilders will pay a Realtor a commission only if the Realtor follows their strict rules from the very first visit to the model homes. If you don't follow the rules, you will be on your own, and will not benefit in ***any*** way by having representation.

The benefits of using a REALTOR® to buy a new home are as follows:

- **You have someone representing you.**

  When you buy direct from the builder, you encounter "Dual Agency." The builder's agent represents both you and the builder. You will not have someone looking out for ***your*** interests in particular. As your REALTOR® representative, we attend sales appointments with you, any subsequent meetings, the final walkthrough, and the signing at the Title Company.

- **We can refer a licensed contractor to do a walkthrough with you.**

  During the walkthrough, the contractor will identify issues of concern that might need attention. Typically, these are issues the builder would otherwise not point out to you. Once these items have been identified, the builder corrects them, and then you can sign the final occupancy release.

You must do the following to qualify for our help with a new home purchase:

- **Your REALTOR® must go with you when you visit a new home development.**

  Failure to have your REALTOR® with you on that first visit means that you will likely ***not*** be able to have our representation.

- **If you want to visit the models, but your REALTOR® is not with you, *do not sign anything*, including the guest book!**

  Sometimes, you can visit the showrooms without signing in. However, the developers want you to sign in to receive brochures, discuss the development or get pricing information. This is information that we can also provide for you. If the office personnel insist that you sign in, tell them you have a REALTOR®, and share your agent's business card. If they tell you that you no longer qualify to have REALTOR® representation because your agent is not with you, **do not sign anything**, and simply leave. We will come back with you and will help you sign up properly.

Open Houses

When looking for a home, it is important to visit Open Houses. We are happy to accompany you. However, you may also visit Open Houses without me. But if you do, there are a few things that you should be aware of:

- **Realtors hold Open Houses to attract potential clients.**
- **Some buyers visit Open Houses to try to get a deal.**

  Some buyers believe that if they remove their REALTOR® from the equation, and deal directly with the listing REALTOR®, they can save money on the sale price of the house or on closing costs. While this may initially seem like a good idea, it has a serious potential downfall. That REALTOR® would be representing parties on ***both*** sides of the contract. You need an objective person that will be ***your*** advocate and look out ***only*** for ***your*** best interests.

To avoid potential issues at an Open House:

- **Carry your agent's business card with you.**

  When you enter an Open House, the first person you will typically encounter will be the Listing REALTOR® or another REALTOR® from the same office. Simply give the REALTOR® your agent's business card which lets them know that you have representation.

- **Do not sign anything while visiting an Open House.**

  Most Realtors want you to sign an Open House guest book. Some will even state that the homeowner has specifically requested that everyone entering the home "sign in." You may simply decline. If they insist, give your name only. It's preferred that you do not give a phone number, address, email address or any other contact information, in order to ensure we can represent you fully.

Short Sales

1. What is a Short Sale?

A short sale occurs when a homeowner needs to sell their home, but they owe ***more*** on their loan than they will receive from the sale of the home. In other words, they will be "short" on the amount of funds required to pay off the outstanding loan. A short sale requires the lender to agree to the sale of the home at a price lower than the remaining balance on the outstanding loan. In a short sale, the lender becomes a party to the transaction.

2. What is the difference between a Short Sale and an REO?

An REO (Real Estate Owned property) is a home that has already gone through the foreclosure process and is owned by the lender or bank. The lender is highly motivated to sell the property as quickly as possible.

A Short Sale, on the other hand, is much more difficult to complete because the lender does not yet have control of the property. Rather than sell the property, the lender often tries to negotiate the loans and terms to keep from having to foreclose or incur a large loss through a short sale. Lenders may refuse to talk to REALTORS® until they are fully convinced that the homeowner's only option is to sell. Usually, the homeowner has to stop making payments for the lender to realize that they are serious about selling. ***Short sales, because of all of the intricacies involved, can take months to close. If you are in a hurry to get into a home, a short sale is probably not for you.***

3. What are some typical reasons for a Short Sale?

Short sales normally occur in a depressed market where home values have dipped below what homeowners originally paid. Reasons for selling are varied, but the most common are that adjustable rates on a loan make the monthly payment unaffordable, loss of income, job transfers, or divorce.

4. What are potential problems with a Short Sale?

- Lenders may not have a separate department set up to handle short sales. Therefore, you deal with the person working for the lender who currently oversees the loan. They can be difficult to contact. They may not be quick to respond to emails or phone calls.

- Lenders typically do not want to do a short sale. They want to renegotiate the loan to mitigate their loss.

- In some situations, a short sale will not be allowed by the lender. If a lender feels that the seller's circumstances do not warrant a short sale, or if they do not agree that the seller is undergoing a substantial enough financial hardship, they will not cooperate. A seller is not allowed to short sell just because they want to.

- Everything in a short sale is negotiated by the lender, including the commissions paid to Realtors.

- Many different offers can be submitted to the bank on a short sale. The bank may choose to respond to one and not respond to the others. This leaves a buyer hanging, not knowing if they have a deal or not. You may miss out on making an offer on another property while you're waiting to hear back on a short sale property.

- Once in escrow, the lender does a BPO (Broker's Price Opinion) to appraise the value of the property. Once the current market value is determined, the lender may seek to renegotiate the price back up to market levels. This may cause the deal to fall through. The buyer may not wish to pay the higher price or may no longer qualify to purchase the property. This can cause further delays in an already long process.

- A lender typically will not approve a short sale until the seller actually stops making their payments. Once payments cease, foreclosure proceedings begin and a Notice of Default (NOD) is served. There is a limited amount of time in which a short sale can occur before the home is actually foreclosed.

- Once foreclosure proceedings begin, it is possible to have a short sale negated by an untimely trustee's sale. In this case, not only does the prospective buyer not get the home, but a tremendous amount of time and effort has been wasted. In some cases, money has been spent on inspections, appraisals, etc. This is part of the risk.

5. Short Sales are purchased "As-Is"?

Since the bank sets the terms for the short sale, they will not do any repairs. They will have you sign an "AS-IS" Addendum as a part of the contract. However, on rare occasion when there are catastrophic damages, a lender may issue some credit towards the repairs. You will need to pay for any inspections required, with no guarantee that you will actually end up owning the house**.** ***This is one of the substantial risks associated with short***

sales.

6. Banks do not want to issue credits for closing costs.

Banks want to set a price and then proceed with that price. They do not want to issue credits for non-recurring closing costs, repairs, etc. Most important to banks is their bottom line at closing.

7. Short Sales have significant tax and credit implications for the seller.

This does not affect the buyer's credit or taxes. However, it can slow down the transaction while the sellers work out the details with their accountants, etc.

Terms You Need To Know

Adjustable Rate Mortgage (ARM): A mortgage with an interest rate that changes over time in line with movements in the index. ARMs are also referred to as AMLs (adjustable mortgage loans) or VRMs (variable rate mortgages).

Adjustable Period: The length of time between interest rate changes on an ARM. For example, a loan with an adjustment period of one year is called a one-year ARM, which means that the interest rate can change once a year.

Amortization: Repayment of a loan in equal installments of principal and interest, rather than interest-only payments.

Appraisal: A report, generated by a third party individual hired by your lender, that ensures you, as well as the lender, that your home is worth what you are paying for it.

Assumption of Mortgage: A buyer's agreement to assume the liability under an existing note that is secured by a mortgage or deed of trust. The lender must approve the buyer in order to release the original borrower (usually the seller) from liability.

Balloon Payment: A lump sum principal payment due at the end of some mortgages or other long-term loans.

Binder: Sometimes known as an offer to purchase or an earnest money request. A binder is the acknowledgement of a deposit along with a brief written agreement to enter into a contract for the sale of real estate.

Cap: The limit on how much an interest rate or monthly payment can change, either at each adjustment or over the life of the mortgage.

CC&Rs: Covenants, Conditions, and Restrictions. Documents that control the use, requirements and restrictions of a property.

Certificate of Reasonable Value (Covenants): A document that establishes the maximum value and loan amount for a VA guaranteed mortgage.

Closing Statement: The financial disclosure statement that accounts for all of the funds received and expected at the closing, including deposits for taxes, hazard insurance, and mortgage insurance.

Condominium: A form of real estate ownership where the owner receives title to a particular unit and has a proportionate interest in certain common areas. The unit itself is generally a separately owned space whose interior surfaces (wall, floors, and ceilings) serve as its boundaries.

Contingency: A condition that must be satisfied before a contract is binding. For instance, a sales agreement may be contingent upon the buyer obtaining financing.

Contingency Period: The contingency period or inspection period is designed to serve three major purposes for the buyer: to inspect the property, to get the buyers loan approved and ready, and to have the home appraised.

Conversion Clause: A provision in some ARMs that enables you to change an ARM to a fixed-rate loan, usually after the first adjustment period. The new fixed rate is generally set at the prevailing interest rate for fixed-rate mortgages. This conversion feature may cost extra.

Cooperative: A form of multiple ownership in which a corporation or business trust entity holds title to a property and grants occupancy rights to shareholders by means of proprietary leases or similar arrangements.

Down Payment: The amount of cash you will be providing from your own resources towards the purchase price. Typically, the higher the deposit, the more attractive your offer. With a higher deposit, you may be offered better rates and options from the lender.

Due-On-Sale Clause: An acceleration clause that requires full payment of a mortgage or deed of trust when the secured property changes ownership.

Earnest Money: The portion of the down payment delivered to the escrow agent by the purchaser with a written offer as evidence of good faith.

Escrow: A procedure in which a third party acts as a stakeholder for both the buyer and seller, carrying out both parties' instructions and assuming responsibility for handling all paperwork and distribution of funds.

FHA Loan: A loan insured by the Insuring Office of the Department of Housing and Urban Development; the Federal Housing Administration.

Federal National Mortgage Association (FNMA): Popularly known as Fannie Mae. A privately owned corporation created by Congress to support the secondary mortgage market. It purchases and sells residential mortgages insured by FHA or guaranteed by the VA, as well as conventional home mortgages.

Fee Simple: An estate in which the owner has unrestricted power to dispose of the property as he wishes, including leaving by will or inheritance. It is the greatest interest a person can have in real estate.

Finance Charge: The total cost a borrower must pay, directly or indirectly, to obtain credit according to Regulation 2.

Graduated Payment Mortgage: A residential mortgage with monthly payments that start at a low level and increase at a predetermined rate.

Home Inspection Report: A qualified inspector's report on a property's overall condition. The report usually includes an evaluation of both the structure and mechanical systems.

Index: A measure of interest rate changes used to determine changes in an ARM's interest rate over the term of the loan.

Joint Tenancy: An equal undivided ownership of property by two or more persons. Upon the death of any owner, the survivors take the decedent's interest in the property.

Lien: A legal hold or claim on property as security for a specified amount on specified terms.

Loan Commitment: A written promise to make a loan for a specified amount on specified terms.

Margin: The number of percentage points the lender adds to the index rate to calculate the ARM interest rate at each adjustment.

Mortgage Life Insurance: A type of term life insurance often bought by mortgagors. The coverage decreases as the mortgage balance declines. If the borrower dies while the policy is in force, the debt is automatically covered by insurance proceeds.

Negative Amortization: Negative amortization occurs when monthly payments fail to cover the interest cost. The interest that isn't covered is added to the unpaid principal balance, which means that even after several payments you could owe more than you did at the beginning of the loan. Negative amortization can occur when an ARM has a payment cap that results in monthly payments that aren't high enough to cover the interest.

PITI: Principal, interest, taxes, and insurance.

Planned Unit Development (PUD): A zoning designation for property developed at the same or slightly greater overall density than conventional development, sometimes with improvements clustered between open, common areas. Uses may be residential, commercial or industrial.

Private Mortgage Insurance (PMI): Insurance written by a private company protecting the lender against loss if the borrower defaults on the mortgage.

Prepaid Interest: This per diem charge may vary from a full month's interest to just a few days. If your loan closes at the beginning of the month, you will pay more. If your loan closes at the end of the month, you will only have to pay a few days interest.

Prepayment Penalty: A fee charged to a mortgagor who pays a loan before it is due. Not allowed for FHA or VA loans.

Purchase Agreement: A written document in which the purchaser agrees to buy certain real estate and the seller agrees to sell under stated terms and conditions. Also called a sales contract, earnest money, or agreement for sale.

Regulation Z: The set of rules governing consumer lending issued by the Federal Reserve Board of Governors in accordance with the Consumer Protection Act.

Tenancy in Common: A type of joint ownership of property by two or more persons with no right of survivorship.

Title Insurance: Title insurance assures owners that they are acquiring marketable title. It is designed to eliminate risk or loss caused by defects in title from the past.

VA Loan: A loan that is partially guaranteed by the Veterans Administration and made by a private lender.

Post-Closing Tips

1. Submit a change of address with USPS.
2. Update your address with all of your service providers and contacts. Here are some examples:
    a. Employer (make sure this carries through to your health insurance provider)
    b. Childcare provider/school
    c. Family and friends
    d. Any place you are listed as someone's emergency contact
    e. Bank accounts – (checking, savings, CDs, money market, stock, etc)
    f. Credit cards, auto loan provider, student loan provider
    g. Auto insurance provider, toll tag account
    h. Vehicle registration and driver's license
    i. Magazine subscriptions
    j. Cellular provider
    k. Places where your shipping info is saved or you have something on auto delivery (amazon, prescription refills, online retailers, etc)
    l. Rewards accounts (hotels, shopping, airlines, etc)
    m. Civic/religious organizations
    n. Professional organizations
    o. Voter registration - https://www.votetexas.gov/register-to-vote/did-you-change-something.html
3. Transfer existing warranties into your name (foundation, builder, roof, etc).
4. Change the locks on all exterior doors, if desired.
5. Consider installing an alarm system and/or a video doorbell.
6. Make sure there are working smoke detectors in each sleeping room and in all living areas. Consider installing a CO2 detector if one isn't already present. (Some alarm companies will incorporate these devices into your monitored system, so you may want to wait until you arrange alarm service before you purchase these items).
7. **Locate and assess the condition of air filters in the AC units; change if necessary and set reminders for changing on a schedule.**
8. Register your pets with the city, if required. Update contact info on their tags.
9. Determine your neighborhood's trash and recycling schedule and watering restrictions.
10. Locate the nearest police station, fire station, and post office.

11. If repairs or deficiencies were identified on the inspection and not already performed, consider hiring repairmen to correct them.
12. See if your neighborhood is on NextDoor or has a Facebook group, if you want to meet neighbors and get involved in happenings around your area.