

The Home Purchase Process Explained

Know your options - get pre-approved.

You will have many decisions to make when purchasing a home. One decision you will have to make will be how much to spend. Fortunately, this decision can be made quite a bit easier if you start by getting pre-qualified for a home loan. There are a variety of loan products available in today's market. Get your options explained in plain English by the loan officer. Once your options are explained, ask for a pre-approval letter.

Define your needs.

Make a list of the features the 'ideal' home must have to meet your needs. A secondary list of features that you would like to have but could live without is also helpful. These lists will be helpful for both narrowing down your options as well as helping to highlight homes that might be ideal for you.

Choose an Agent.

Finding an agent will jump start your search. Your agent will review your list and loan pre-approval and provide you a list of homes to review that match both your budget and needs. Choose an agent who can answer your questions and listen to your needs. Having an agent will give you an edge by introducing you to hot new listings as soon as they hit the market.

Tour the neighborhoods in which there are homes you can afford.

Once you have a list of homes, drive around the neighborhoods and get acquainted with their features. Are they close to shopping, rail roads, industrial areas, schools, hospitals, parks, etc... Decide what areas work for you and which areas you want to avoid.

Narrow down your list.

Ask your agent to narrow their search to neighborhoods that you would like to live in. Let them know which areas to avoid and which areas work the best for you.

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Tour individual homes.

Once your list has been narrowed down, ask your agent to setup showings for homes that draw your attention. Take notes about each property... note the things you love as well as the things you can't live with. Let your agent know how you are feeling about each property.

Choose a home.

Compare your lists to your top picks from the homes you have toured. Use your lists to help narrow down your options to the home that best meets your needs. If you are on a tight budget, you might have to live without some features. By ranking the importance of the features you need, it will help you decide if you can or cannot live without certain features.

Remember some features, such as stone counter-tops could be added in a remodel later on; where as digging and pouring a basement for a home on a slab would likely be an impractical remodeling project. Finding a home with the perfect paint colors, landscaping and other 'superficial' qualities is icing on the cake, so remember such items are relatively inexpensive and easy to change.

Make an offer.

Once you have seen all the homes, you may be ready to take a second look, review the seller's property disclosure and eventually write an offer. Your agent can help you evaluate if the asking price is reasonable and craft an appropriate offer for the home. Depending on your situation, offers can include conditions that ask for repairs, money to help with closing costs, home warranties, closing date, terms of the buyers financing, timing of inspections and many other details of the sale. Your agent should provide you a standardized contract template that has been approved by the Lawrence Board of Realtors. A standardized contract prevents the likelihood of "gotcha clauses" and have been reviewed by attorneys to assure they are fair and protect both the buyer's and seller's interests.

Presenting the offer & negotiations.

Your offer should include an "earnest money deposit" and your "mortgage pre-approval letter" from the bank. These items show the seller that you are a seriously buyer who is financially able to fulfill the terms of the contract being presented. If the seller chooses to accept your offer, these assurances will help them feel confident about removing the home from the market.

Accepting the conditions of the contract.

Once both the seller and buyer accept the conditions of the contract both sides are now legally obligated to move forward in good faith to complete the sale of the home. As a buyer there are several protections built into the contract that provide you an out, such as mechanical problems not disclosed in the seller's disclosure before you signed the contract and the property not appraising for the sales amount. Once the contract has been accepted, the buyer no longer needs to worry about the seller accepting other offers because the seller becomes contractually bound to complete the sale to you even if a better offer comes along. Both the seller and buyer will have milestones and obligations they are required to meet as described in the contract. Failure to meet these obligations by either party can give cause for the other party to cancel or negate the contract or even sue to recoup damages.

The escrow.

Once your agent has negotiated an accepted offer between you and the seller, both the buyer and seller become legally bound to execute a series of responsibilities commonly referred to as "escrow". The escrow begins when the seller's agent delivers the signed contract to the title company noted on the contract. The title company acts as a trusted 3rd party to the transaction who manages and records the executions of the contract by all parties involved. They will ultimately be responsible for issuing title insurance to the buyer and collecting and dispersing all the money throughout the transaction.

Schedule Inspections.

- Mechanical (Average Cost \$300 - \$360) – Commonly called a 'Home Inspection' the mechanical inspection will provide you with overall assessment of all of the mechanical systems of the home. Just about every home, including new construction, will have some defects or need some maintenance. You should feel comfortable with the mechanical inspection before moving forward with your purchase. The buyer retains the right to cancel on their purchase contract if the seller is unable or unwilling to make repairs to the mechanical defects uncovered during the inspection. Some issues such as foundation problems may require additional inspections to be conducted by specialists.
- Termite / Pest (Average Cost \$60 - \$75)
- Other (structural, environmental, safety, septic, etc...)

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Obtain estimates for repairs and request seller to make repairs.

Once your inspection period has been completed, you will need to decide which repairs (or price adjustments) need to be made to the property by the seller before you are willing to continue with the sale. Remember the seller may refuse your request. A seller with a hot property or backup offers, will have more leverage to refuse your request for repairs. Ask for the repairs needed but be prepared to move on to the next property if the mechanical defects of the home are more than you are willing to take on and the seller will not correct them.

Schedule appraisal.

Once you have requested repairs and you have an agreement with the seller to make them, it's time for your lender to order an appraisal. The appraisal confirms to your lender that the price you are offering to pay for the home is reasonable based on recent comparable sales in the same area. If the home cannot appraise for the price you are paying, your bank will deny your loan and it's a strong indication you are overpaying for the property.

Mortgage Commitment.

When you were pre-approved, the lender checked your credit history and income documents to assure you have the financial means to make the deal. Now you have chosen a home, entered a binding sales contract and have a bank approved appraisal on the property. The bank will review all of your financial documents again, make sure your financial situation has not changed and the property you have selected meets their lending standards. The bank may request additional information or re-confirm details with you at this time. If nothing has changed, this generally goes smoothly. Changes in your employment, new loans on your credit history since your pre-approval or errors in your documentation can cause delays or rejection of your loan. In most cases this process goes smoothly. **If you are planning on making changes to your employment, applying for new credit cards or making large purchases on credit (buying a car or major appliance), I highly recommend delaying it until after the closing of your home purchase.**

Approve Repairs.

If major repairs have been made it may be important to have the issue re-inspected by a professional. All repairs should be reviewed by the buyer and receipts for work along with any warranties should be supplied to the buyer at the closing.

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Final Walk-Through.

Shortly before you close the sale and take possession of the home, you should take the time to walk through the property. Look for any new damage, personal items being left behind or unfinished repairs required to be completed before the closing. In most cases the home will be ready for closing. If there is a problem, it may be necessary to delay closing, or have the title company retain money from the seller until the problem has been corrected.

Closing.

In most cases, you will need to schedule a time on the day you take possession of the home to sign the final paperwork associated with the sale and get the keys to your new home. This is known as "Closing" and usually takes place at the title company. You will need to review and sign a statement of fees and charges related to the sale called a HUD-1, sign all of your loan documentation and deliver a check for your down payment.

Transfer of Title.

Once the title company has all of the completed paperwork, they will deliver the deed to the county to be recorded. This is officially when the home becomes yours! Congratulations!