



Home Buying Guide

7-Step Guide for Buying Your Home

Step 1: Analyzing the Number

Analyzing the Numbers Affordability Analysis, Tax Benefits, Credit Reports, Finance Guides ...

Step 2: Finding a Home

Home Styles, Location, Home Search, Agent Search, Location Guides ...

Step 3: Making the Offer

Home Inspection, Contract Negotiations, The Offer, Contract Guides ...

Step 4: Understanding Cost

Understanding Escrow, PMI, Taxes, Estimating Monthly Payments ...

Step 5: Pick Your Mortgage

The guide will link you to our companion site for information: PickMyMortgage.com

- ABCs of Mortgage Loans,
- Steps in Picking Your Mortgage
- Mortgage Loan Types
- Rates
- Apply Online: [Get Up to 4 Offers from Local Lenders](#)

Step 6: Qualifying for a Loan

Debt Ratios, Rate Locks, Loan Product Comparisons, Submission Guides ...

Step 7: Closing / Settlement

Closing Costs, Settlement Steps, Closing Guides, HUD-1 Settlement Statement ...



Home Buying Guide



Step 1: Analyzing the Numbers

Topic: [Calculating the Numbers](#)

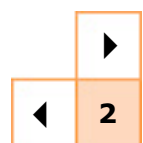
Topic: [Notes: What Goes Into the Numbers](#)

Topic: [Tax Benefit of Home Ownership](#)

Topic: [Getting Yourself Pre-Approved](#)

Topic: [Qualifying for Credit](#)

Topic: [Credit Report Information](#)



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home improvement • others plans

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Home Buying Guide Step 1: Analyzing the Numbers



Calculating the Numbers

- Your first step: calculate how much house you can afford. This will help determine what type of home to buy and where to look.
- We are going to link you to some simple calculations to estimate how much you can afford. Please note that these calculations do not consider the true cost of a mortgage, which includes additional monthly costs for escrow and other related fees.

[See our Step 4 for escrow information.](#)

[Link to mortgage calculators](#)



What Goes Into the Numbers

Required up-front money to buy your first home include:

- Down Payment:

The standard down payment percentage is 20% of the home's purchase price.

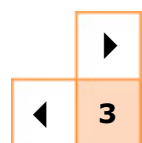
Many lenders now allow for lesser percentages as little as 3-5%, provided that private mortgage insurance (PMI) is obtained:

[see Step4 for PMI notes](#)

Existing home owners can use the resale equity of their home as down payment. New home buyers will need to use their savings or cash gifts from family members.

Note: IRS rules allow for an one-time distribution from qualified IRA accounts without the 10% penalty for acquisition of a home for first-time home buyers.

[see PlansForMe.com for more information](#)



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Home Buying Guide Step 1: Analyzing the Numbers



- Discount Points:

Discount points are up-front fees that lenders charge in order to offer lower interest rates.

A point equals 1 percent of the mortgage loan amount.

For example, if the lender charges 2 points on an agreed loan amount of \$100,000, your point fees will be \$2,000.

Many lenders offer mortgage loans with zero points. These products generally carry a higher interest rate, however.

Typically, each point that you pay on a 30-year loan lowers your interest rate by 0.125 of a percentage point. This reduction may vary by lender.

Compare rates vs. points calculation - from Dinkytown.net:

<http://www.dinkytown.net/java/MortgagePoints.html>

- Closing costs:

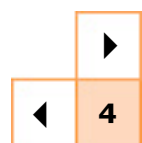
Closing costs are incurred costs associated with the closing and transferring home ownership from the seller to the buyer.

These costs include lender fees, prepaid fees, title search, recording fees, surveyor's fees, attorney fees, and other closing-related fees.

[You will find a more detailed discussion under Step 7](#)

Closing costs can average about 3-5% of the total sales cost, including points.

[We have a calculator at PlansForMe.com](#) that adds it all up to determine how much down payment you will need.



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Home Buying Guide Step 1: Analyzing the Numbers



Tax Benefit of Home Ownership

- You can deduct the mortgage interest portion of your house payment from your taxes, if you itemize your deductions on Schedule A (Form 1040).
- Interest rate charges and other related costs to close your mortgage loan are generally tax deductible as well. This will include points paid and other up-front lending fees.

See your tax advisor for further information.

IRS-related publications and forms for homeowners:

[Publication 936: Home Mortgage Interest Deductions](#)

[Publication 530: Tax Information for First-Time Homeowners](#)

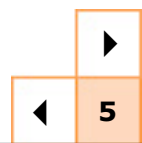


Getting Yourself Pre-Approved

- You should consider preapproving your mortgage loan before house hunting. You will be able to make an offer knowing exactly how much you can afford.
- Pre-approval will make your offer more attractive to sellers.
- There is no obligation when you pre-approve for a mortgage loan from a lender, nor does it obligate the lender to provide you a mortgage loan.
- The pre-approval simply reviews your credit and income qualifications based upon the information supplied. The final approval will require verification of your financial status and home purchase
- With a pre-approved mortgage, you can get most of the paper work completed so that you can close on your home as soon as possible.
- We have can help get your pre-approval application started. Link to www.cityloans.com.



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Home Buying Guide Step 1: Analyzing the Numbers



Qualifying for Credit

- Lenders typically use two key criteria to qualify you for credit:
 1. Your capacity to repay the mortgage loan
 2. Your outstanding credit report
- Your capacity to repay your loan is analyzed by two lending ratios:
 - 1: The "housing ratio": calculated by dividing monthly housing expenses by your gross monthly income. As a basic rule, the housing ratio should not exceed 28%.
 - 2: The "debt-to-income ratio": calculated by dividing your fixed monthly expenses by your gross monthly income. As a basic rule, the debt ratio should not exceed 36%.

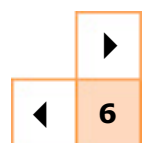
There is more information about these ratios with a input sheet to calculate your own ratio: [see our Step 6.](#)

- Lenders will also review your credit report. Your credit report lists any payment delinquencies that you may have had over the past three years.
- The report can be a factor in a lending institution's decision to approve or decline your mortgage application. You should review your credit report for any errors before applying for a mortgage.
- Allow yourself about 2-3 months prior to the loan application for correcting of any errors that may be on your report.
- You have the right under Federal Law to know what is in your credit report.
- There are three major credit bureaus that maintains your credit information. A lending institution may use all three bureaus for credit reviews; therefore, you may want to review your credit report from each. There may be a charge or other related paid-for service to obtain your credit report.

[PlansForMe.com has links to credit reporting agencies and information on what you will find in your credit report.](#)



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Step 2: Finding a Home

Topic: [Single-Family Homes to BUY](#)

Topic: [Single-Family Home to BUILD](#)

Topic: [Condominiums, Townhomes](#)

Topic: [Manufactured Homes](#)

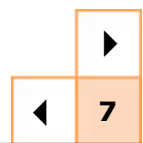
Topic: [Alternative-Type Homes](#)

Topic: [Fannie Mae/HUD/Home Agencies](#)

[step 2b: View Home Styles](#)

[step 2c: Location/ Neighborhood](#)

[step 2d: Finding an Agent](#)



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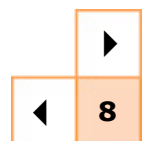
Search Single Family-Homes to Buy

- Search homes online:
<http://www.realtor.com/FindHome/default.asp>

other top online listings:
<http://homeadvisor.msn.com/homes/overview.asp>
<http://www.iown.com>
<http://www.homesekers.com>
- View expensive homes:
<http://www.uniquehomes.com>
- Search for NEW homes from top home builders:
<http://www.newhomenetwork.com>

another listing of new homes to buy:
<http://www.homebuilder.com/>
- Search directory of home classified:
<http://www.newspaperlinks.com>
- Search online classified:
<http://realestate.yahoo.com/>
<http://classifieds.excite.com/>
<http://classifieds.lycos.com/>
- Search FSBO listings (For Sale by Owners):
<http://www.owners.com/>

other FSBO listings:
<http://www.forsalebyowner.com/>
<http://www.fsbo.com/>
- Have someone search online for you (FREE service):
http://www.number1experts.com/Ask_Buying.asp
- Looking to buy a foreclosure:
<http://www.foreclosureworld.net/>
<http://www.4close.com>



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- Doing Price Checks on homes (research what really sold):
<http://www.domania.com/index.jsp>



Search Townhomes, Condominiums, Co-Ops

Townhomes:

- The name derives from the urban homes that were built right next to each other. They share one to two walls on each side. Townhouses usually have separate street-level entrances; many offer separate parking garages. Townhouses are generally more than one level and often come with private backyards and front yard space.

for townhouse search: [see listing](#)

Apartment Homes:

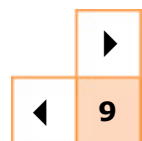
- Four or more units that are attached in one building with many of the apartment homes offering two or more levels. While they generally do not have street-level entrances, apartment homes provide the spacious living of a single-family home combined with the conveniences of a condominium unit.

for apartment search: [see listing](#)

Condominium Units:

- Generally less private and spacious than either townhouses or apartment homes. Most condominium units tend to be one level. Several units may be attached to one building. Separate street-level entrances are usually only available for units on the ground floor. Common facilities such as grounds, laundry facilities, and parking will probably be shared.

When you buy a condominium or townhouse, you are also buying an undivided proportional interest in common facilities such as the grounds, recreation areas, hallways and entrances.



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Many units charge association fees for upkeep, maintenance, and facility use. Be sure you understand the details of these fees as they could add to your total cost of the unit.

for condominium search: [see listing](#)

Cooperative Apartments:

- These apartments are within a co-op managed by a board of members living in the organization.
- Co-ops finance the units with a "blanket" mortgage. When you buy into the cooperative, you are buying a share in the corporation which entitles you to live in a unit.
- Usually, you must go through an approval process by the co-op board during which you may be asked for personal references and financial statements. The boards are often protective of their current members and may deny potential buyers who appear undesirable or fail to demonstrate a life-style the is common among the other members.
- Boards are prohibited from rejecting applicants based on race, gender, national origin or other discriminatory factors. Cooperative apartments can be harder to finance than regular home or condominium units
- For additional information:

Link to: <http://www.cooperative.org/>

National Cooperative Business Association
1401 New York Avenue, N.W.
Suite 1100
Washington, DC 20005



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Manufactured Homes

- Manufactured homes are becoming a popular substitute to trailer units. The manufactured home is about 1/3 the price of site-built homes.
- Like mobile homes, you must decide where to place your manufactured home on a property site that you can own or lease.
- Many areas that cater to manufactured homes offer attractive lot locations with added facilities such as private entrances, home associations, and recreational areas. Take some time to select a home site that fits your needs.
- For additional information:
Link to: <http://www.mfghome.org/>

Manufactured housing global network:
<http://mobilehome.com>

Online information and search:
<http://www.factorybuilthousing.com>



Alternative Type Homes

- Steel home framing:
<http://www.hsf-inc.com>
- Log home construction:
<http://www.loghomes.com>
- Adobe home construction:
<http://www.adobebuilder.com>



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Home Agencies

- FannieMae®:
<http://www.fanniemae.com/>

FannieMae home search:
<http://www.homepath.com>
- US Department of Housing and Urban Development:
<http://www.hud.gov/>
- American Homeowners Association:
<http://www.ahahome.com>



View Home Styles

- American Timeline of Architectural Styles:
<http://www.masterpieces.com/arch2.htm>
- Index of House Styles:
<http://www.uwec.edu/Academic/.../w367/styles/index.htm#house>
- Home Types and Styles from Realtor.com:
<http://www.realtor.com/Basics/AllAbout/TypesStyles/Index.asp>
- Digital Archive of American Architecture:
http://www.bc.edu/bc_org/avp/cas/fnart/fa267/
- [Link to PlansForMe.com for View of Home Styles](#)



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Home Buying Guide Step 2: Finding a Home



Finding Your Location / Neighborhood

Location is a key factor when selecting your home. Preliminary investigative work can save you from a home devaluation down the road. Survey the neighborhood and surrounding area before settling on a particular house.

- Pick a community setting that matches your own taste:

Finding similar communities to your current community:

<http://www.homefair.com/usr/hoodform.html>

What type of community fits your lifestyle:

http://www.homefair.com/calc/ls_basic.html

- Scout those neighborhoods that you can afford:

Check home prices:

<http://www.domania.com/index.jsp>

- Detailed neighborhood analysis:

<http://www.neighborhoodplace.com>

- Check the commuting time from your new home to work:

How important is your commute and how much time are you willing to spend on the road? Will it change significantly if you move to your new home? You should route your new commute and analyze how it will change.

Also investigate what might happen if you change your current job. If you are planning a job change within a few years, you might at least consider the location of your new home to the area's job market.

Map your commute:

<http://www.mapsonus.com>

Check current traffic conditions:

<http://www.smartraveler.com/>

Check your local transportation options:

<http://www.apta.com/sites/transus/>

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Home Buying Guide Step 2: Finding a Home



- Check the Schools:

Regardless of whether or not you have children, check the quality of schools in the community. Any resale value of your home may depend on the quality of schools in your area, particularly elementary schools.

Investigate the average class size, the facilities, and the method of transportation. Evaluate the overall quality of the public school system.

Locate schools servicing your area. View calendars, menus, contact information, etc.:

<http://www.asd.com/>

Compare schools:

http://www.theschoolreport.com/sr_home.html

another listing:

<http://www.schoolmatch.com>

- Let's Do Some Shopping:

Check the area for local shops, grocery stores, restaurants, and shopping centers. Can you buy a loaf of bread quickly, or must you travel long distances for basic items? Could the neighborhood sustain increased traffic to these centers if new subdivisions were developed?

Further evaluate the quality of merchandise being sold in the stores. Quality merchandise indicate a more stable and upscale market.

Search your local market:

<http://www.switchboard.com/>

another listing:

<http://www.mapquest.com>

- Locate the Community Services:

Locate community facilities such as police, emergency response units, parks, libraries, and hospitals. Estimate the distance of these services from your new home. What is your comfort level if a library or park is several miles from your home?

See what's nearby:

<http://www.smartpages.com>

Home Buying Guide Step 2: Finding a Home



- Walk the Neighborhood:

Schedule time to explore the neighborhood within a 12 block area. Pay particular attention to the neighborhood's boundaries such as a highway, park, campus, or other fixed structures. If there are any unsecured boundaries, future changes can occur in and around the neighborhood that can increase or decrease your home's value.

Check the appraised values of the homes in the neighborhood in which you wish to buy. Surrounding homes of equal size should appraise for the same value as your home.

Check to see if the homes in the neighborhood are increasing or decreasing in value. It is a good idea to determine the demand for homes in the neighborhood. Too many "For Sale" signs are a good indication that something is happening.

Find the value of existing or future homes:

<http://www.homegain.com>

Check home prices:

<http://www.domania.com/index.jsp>

- Housing Fees:

What is the tax rate for the area? What municipal services are available and how much will they average? You may find the right home, but high taxes and municipal service fees can turn your home into a negative.

Lookup county and city governments:

<http://www.statelocalgov.net>

City cost comparison:

<http://www.homefair.com/calc/citysnap.html>

Are there any active neighborhood organizations working to maintain and improve the area? If you choose to move into the neighborhood, is there a homeowners' association in which your membership is mandatory?

Homeowners have mixed feelings about such associations. While they certainly help to maintain the quality of the neighborhood and its property values, and maintain its safety as well, they do require membership fees. Find out what they are — you might be surprised.

Home Buying Guide Step 2: Finding a Home



Will you face any deed restrictions? What are they? Are they enforced?

- Check the Negatives:

Any one negative in the neighborhood can counteract two or three positives. Check for all current and future negatives that could potentially devalue your home.

- Rising neighborhood crime. How effective is the crime watch programs in the neighborhood?

Check crime statistics:

<http://www.homefair.com/calc/crime.html>

- Heavy traffic in and around the neighborhood. Evaluate how traffic patterns can increase with potential growth or changes in any underdeveloped areas surrounding the neighborhood.
- Loud sounds, such as airline traffic, nearby factories, major throughway, and ball parks.
- Visual pollution, such as power lines, radio and television towers, auto and bus fleet parking lots, ball fields that play night games, and salvage yards.
- Smells such as bakeries, food processing plants, and factories. These units may be miles away, but a down drift could affect the quality of air in the neighborhood. You might want to visit the neighborhood several times during the day to check out the smells and noises.
- Come back during the evening hours. Find out who frequents the neighborhood and when. Some neighborhoods have multiple personalities and attract a different crowd at night. Talk to your Realtor, then talk to prospective neighbors. Drive around, and do your own research.
- Pick the best home in the neighborhood:

Look for the streets' boundaries where your new home is located. Any dead-end street can be turned into a major throughway. Homes that have defined boundaries can protect you from potential neighborhood changes.

Homes in a cul-de-sac have a higher resale value than homes situated on busy streets. Also consider and potential construction that can turn a quiet street into a busy street later on.

Home Buying Guide Step 2: Finding a Home



Look around the properties of the surrounding homes in the neighborhood. Homes in landscaped neighborhoods can demand a higher premium and keep the resale value high.

Examine the property's lot for drainage, soil composition, physical dimensions, and privacy. An extensive review can save you dollars in structural repair.

Find the value of existing or future home:

<http://www.homegain.com>

Check home prices:

<http://www.domania.com/index.jsp>



Working With an Agent

- Find a home buying real estate agent:
<http://www.realtor.com/FindReal/default.asp>

another listing:

<http://realtentimes.com/rtnews/rtcpages/agentlocator.htm>

- Find agents via classified ads (directory of newspapers):
<http://www.newspaperlinks.com>

- Search Yellow Pages:
[real estate services](#)

- Compare agents:
<http://www.homegain.com>

- Link to PlansForMe.com for notes on:

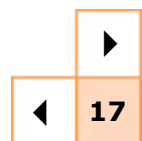
[working with an agent](#)

[using a buyer's agent](#)

[buying a For Sale by Owner \(FSBO\) home](#)



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Step 3: Making the Offer

Topic: [Understanding Your Market: Buyer vs. Seller Markets](#)

Topic: [Understanding the Contract](#)

Topic: [Before Making the Offer](#)

Topic: [Negotiating the Contract](#)

Topic: [Home Inspection](#)

[\(link to PlansForMe for Inspection Report\)](#)

Home Buying Guide Step 3: Making the Offer



Understanding Your Market

- Your first task before making an offer is understanding the market that is working in your area. This will help determine how fast you need to move when looking at homes.
- If you are in a buyer's market, you will have time to search several homes and negotiate best price.
- If you are in a seller's market, you may have only a short time to make an offer before the house slips away.

Working in a buyer's market:

- What is a Buyer's Market:

The market has more sellers than buyers and time is on your side. You will find many homes that you can visit, revisit again for comparisons, and negotiate favorable contract terms.

- It would be advisable to run a comparable neighborhood analysis among homes that you have visited before making an offer. Items to compare include:
 - age and condition of similar homes in the neighborhood
 - homes that have sold within the last six months
 - list of comparable sales in the neighborhood

Have your agent run this list, or generate your own list online:

Find the value of an existing or future homes:

<http://www.homegain.com>

Check neighborhood prices:

<http://www.domania.com/index.jsp>

Home Buying Guide Step 3: Making the Offer



- Individual home appraisals:

Hire an appraiser to look at the home and to get an independent appraised value based on market conditions. The appraisal can run anywhere from \$200-500, depending on how fast you want the appraisal done. The appraisal will help you negotiate best price.

National Association of Realtor home appraisers:

<http://www.narappraisalsource.com/>

another listing from the Appraisal Institute:

<http://www.appraisalinstitute.org/search.htm>

Working in a seller's market:

- What is a Seller's Market:

You need to act fast in a seller's market. Home prices are firm and many homes sell quickly even before reaching the MLS listing. Homes in a seller market receive multiple contract offers and buyers will compete for top price.

It's important to have your paper work completed in a seller's market. You can negotiate more easily knowing exactly how much you can offer and when you can close on the home. [See our pre-approval application process under Step 1.](#)

- Know what kind of home and neighborhood you want:

Know exactly what kind of home you want and in what neighborhood. This way you can move fast on the home if it meets your requirements.

See our home and neighborhood location notes [under Step 2](#)

- Know exactly what you can afford:

Knowing what you can afford based on your financial resources can save you time from calculating different mortgage payment scenarios. You can move fast knowing what price you can work with.

Affordability calculators from Fannie Mae® @ www.homepath.com:

[Calculating how much home you can afford](#)

Home Buying Guide Step 3: Making the Offer



[What can you afford with a planned monthly payment](#)

[View current mortgage interest rates](#)

- Get home comparisons:

Have your agent run a list of comparable sales in the neighborhood and have it available when you tour the home. The list will show comparable homes that have sold in the area and at what price.

You can generate your own list online:

Find the value of existing or future home:

<http://www.homegain.com>

Check home prices:

<http://www.domania.com/index.jsp>

- Individual home appraisals:

If you are from out of town, you may need someone to appraise the home for you. Independent appraisals can run anywhere from \$200-500, depending how fast you want the appraisal done:

National Association of Realtor home appraisers:

<http://www.narappraisalsource.com/>

another listing from the Appraisal Institute:

<http://www.appraisalinstitute.org/search.htm>

use the yellow pages to find your appraiser:

[search appraisers](#)

- Keep yourself available:

Let your agent know that you are available at any time to look at homes that come on the market. Give the agent your daytime numbers and cell numbers so that you can act instantly. Other buyers in the market may be using similar tactics.

Home Buying Guide Step 3: Making the Offer



Need cellular or pager services. Compare / order wireless products and services:

<http://www.cellularphones4less.com/>

Cellular accessories:

<http://www.mycoolcell.com/>

Learn about cellular plans:

<http://www.wirelessadvisor.com/>

Find the lowest cellular plan:

<http://www.lowermybills.com/>

- Have your mortgage pre-approved:

This will give you a negotiating edge if the seller knows that you have been pre-approved and that you can close fast on the house if necessary.

See our pre-approval notes [under Step 1](#).



Understanding the Contract

When you are ready to make an offer, your agent will provide you the standard documents that list the terms of the contract. The agent should review the contract with you.

Ask your agent to explain each line item before signing the contract. Once you sign the document, and the seller accepts your terms, you are legally bound by the agreement. So make sure you include items that are important to you.

Listed are some key variables that you will find in a typical real estate contract:

- Purchase Price:

This is the price you are willing to pay for the home. You should offer what you think the house is worth. It would be helpful to compare your offer with comparative homes that have sold in the neighborhood (see above).

Your offer should consider any negatives that could potentially devalue your home in the future.

Home Buying Guide Step 3: Making the Offer



Sellers generally add some padding in their asking price. In a tight seller's market, you may have to bid close to that asking price. In a buyer's market, you can negotiate that price down.

- The Terms of the Sale:

The contract generally lists items that become terms of the sale. These items include personal property and fixtures that are part of the house such as ceiling fans, window treatments, outdoor lighting fixtures, and other attached items.

You may list in the contract other items that you want to remain with the house after you close. These items may include window draperies, shower curtains, wall ornaments, and other items that are reasonable and appropriate.

The seller may not agree to your terms and strike them out of the contract. But it wouldn't hurt to list these items if you feel they should remain with the house. The seller may be willing to negotiate these items as part of the sale.

The terms of the sale may include a portion of the closing costs that should be paid by the seller. Sometimes the seller may be willing to pay a portion of the closing costs if they are less likely to negotiate downward on price.

You should have a good estimate of your closing costs before you make an offer. If your closing costs are going to be high, you may want to negotiate the asking price down or ask the seller to pay a portion of the costs.

[See discussion on closing costs under Step 7.](#)

- Financing Terms:

The contract is usually contingent upon the buyer obtaining within X-days a written loan commitment from a lending institution.

The contract usually states that the buyer will make a loan application within a few days from the effective date of the contract, and that the buyer will use all diligence to obtain this loan at a reasonable interest rate and terms as defined in the contract. If the financing doesn't come through, then the contract is no longer binding.

Now place yourself in the shoes of the seller. If two buyers submitted contracts offering the same price and terms for your home, which of the two contracts would you prefer to work with:

Home Buying Guide Step 3: Making the Offer



Buyer 1: This contract obligates the buyer to apply for a loan application within a few days.

Buyer 2: This contract states that the buyer has already made application for a loan and has been pre-approved by a lending institution.

Can you see why your paper work should be completed before making an offer? The seller is confident that you will have the financing ready upon settlement. See our pre-approval application process under Step 1 for more information.

- **Earnest Money:**

Earnest money is a cash deposit made by the buyer "as a security" when you enter into a contract with the seller. This cash deposit will be paid to the seller in the event the buyer fails to honor the contract

The deposit will be set aside as payment on your closing, or returned to you if the seller doesn't accept your contract terms. If both buyer and seller agree to the contract terms, and then the buyer breaches the contract, the earnest money is paid to the seller as compensation for potential losses the seller may have incurred.

Earnest money is not required in most states. But an earnest deposit signals to the seller that you are serious about your intent to buy. Most sellers will not enter into a contract unless the buyer deposits earnest money.

The amount of your earnest money may vary. Most experts recommend a deposit anywhere from 3-5% of the total purchase price. In a seller's market, a sizable earnest deposit could swing the sale in your favor.

Earnest money is usually deposited into a third-party trust account such as a bank or with the listing real estate agent. At closing, the earnest money will be applied to any cash down payment required, then to the buyer's closing costs, with any excess amount refunded to the buyer. In most cases, no interest is paid while your money is in escrow.

- **Settlement and Possession:**

The contract will list settlement and possession dates and terms.

Settlement date is when you close on the contract and both parties fulfill the contract terms. Settlement date is usually 45-60 days after you sign the initial contract, but that may vary depending on how fast both parties want to move. Make sure you allow

Home Buying Guide Step 3: Making the Offer



enough time to sell your current house if you are using the proceeds from your sale on your new home.

The possession date is when buyer takes possession of the home. The possession date and settlement date are usually the same day unless otherwise noted.

Occupancy date is the date when the buyer can move into the home. Some contract terms may allow the seller to stay in the home after possession date. For example, the seller may request more time to move out of the house. Usually the seller will pay the buyer some rental fees for the seller's time in the home after possession date. Check with your closing attorney on possession and occupancy terms and agreements.

- Proration and Sale of Current Residence:

All real estate taxes for the current year, homeowner or condominium fees and maintenance fees, and rents, if any, will be prorated at the closing date. These annual expenses will be divided between the seller and buyer.

If the contract is conditioned on the buyer selling their current residence, you must include this provision in the contract. The terms of the agreement must be clearly stated so the buyer and seller understands what constitutes the sale of the current residence. Discuss these terms with your agent or closing attorney.

- Home Inspection:

The contract should include provisions for structural inspections. You should state in the contract that the buyer has the right to withdraw from the contract if the inspection report is not satisfactory.

The seller agrees to deliver the plumbing, heating, electrical (including light fixtures and ceiling fans), air conditioning, fireplace, all built-in appliances, and if one exists, swimming pool in working condition. The roof must be free of visible leaks at the time of closing.

[click for more inspection notes and to locate an inspector](#)

- Environmental, Termite and Other Tests:

Other tests that may be included in the contract are environmental and termite inspections. You will want to test for radon, lead paints, and asbestos if you believe these tests may be necessary, particularly in older homes.

Home Buying Guide Step 3: Making the Offer



[Search local inspectors for environmental tests](#)

For environmental testing information:

<http://www.envirofree.com/>

The home must also be free from active termite or other wood destroying insects. The seller agrees to furnish a letter or report from a reliable licensed termite control operator stating that the home is termite free. Make sure these inspection items are included in the contract.

Termite Control Information:

[termites of n. america](#)

[controlling termites and carpenter ants](#)

[protecting your home from termites](#)

[do it yourself termite control](#)

Find pest control contractors:

[orkin](#)

[pestoffense](#)

[terminex](#)

Search Yellow Pages for: [pest control](#)

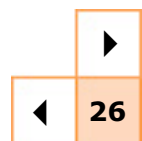
- Contingencies Clauses:

The contract should contain contingencies clauses that allow you to withdraw from the contract if certain events do not occur. Some of the most common contingencies include:

- contingency that you are able to obtain adequate financing to purchase the home from a lending institution
 - contingency that a full inspection be performed and that the inspection report satisfies you
 - contingency that you receive the job offer that allows you to buy the home
- make sure all contingencies are fully noted on the contract.



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Home Buying Guide Step 3: Making the Offer



Before Making the Offer

Ensure the contract includes all essentials:

- The contract should include the following items (this may vary by state). Make sure you discuss these items with your agent before signing the contract:
 - * attached lighting, heating, cooling, plumbing fixtures, and equipment
 - * all doors, storm doors, and windows
 - * all window treatments and hardware, ceiling fans
 - * wall-to-wall carpet
 - * all built-in kitchen appliances and range
 - * pool equipment and accessories, if any
 - * all bathroom fixtures and mirrors
 - * garage door opener and all remote controls
 - * satellite dishes, rotors, and control devices
 - * all landscaping and related lighting, mailbox and basketball goal and backboard, if any
 - * all security system components
 - * other components listed by the buyer and agreed to by the seller
- Your contract should include a provision that everything should be in working order on the settlement date. All personal items that belong to the Seller should be removed from the house and property and the house should be thoroughly cleaned before taking possession.

Attach additional items:

- Consider adding items to the contract that you want to remain with the house after you close. These items may include:
 - * window draperies
 - * shower curtains
 - * wall ornaments
 - * yard decorations
 - * home appliances
 - * home furniture
 - * building sheds
 - * shelving
 - * other

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Home Buying Guide Step 3: Making the Offer



- Be sure to specify exactly what you would like included — this prevents the seller from replacing the item with an inferior substitute.
- The seller may not agree to your terms and strike them out of the contract. But it wouldn't hurt to list them. The seller may be willing to negotiate these items as part of the sale.

Walk-through inspection:

- As you walk through the house, conduct your own personal inspection:
 - * run the appliances to see if they operate properly
 - * run the air conditioning and test for broken window seals
 - * move the furniture and investigate any bad floor spots
 - * check the walls behind furniture for damage
 - * check the wall's and ceiling's paint/wall paper
 - * inspect the attic for structural damage
 - * eye under the outside eaves for structural damage
 - * investigate potential drainage problems
 - * check the driveway and sidewalk for damage
 - * check for paint peelings
 - * review the exterior for animal damage

Include a Home Warranty Provision:

- A home warranty protects you against costly repairs for one full year after the sale. The warranty usually covers the plumbing, electrical, built-in appliances, heating and air conditioning units.
- Sellers are not obligated to offer a home warranty. But you can make it part of the contract. It's worth the price of the home. Ask the seller to add a warranty provision as part of the sale terms.
- List of home warranty companies to consider:

American Home Shield:

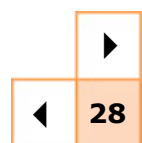
<http://www.americanhomeshield.com/>

Home Warranty of America:

<http://www.hwahomewarranty.com/>



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Home Buying Guide Step 3: Making the Offer



Negotiating the Contract

Presentation and Counter Offer:

- Review every line item before you sign the contract. Once the contract leaves your hand and is presented to the seller, you are legally bound by its terms if the seller accepts the contract without any changes.
- The contract should stipulate how long the seller has to respond to your offer. You should allow at least 48 hours as your response time limit. Allowing too much time gives the seller the opportunity to shop other buyers.
- Your agent will present the contract to the seller's agent. The seller has four options:
 1. The seller may accept your offer as is. The contract then becomes binding on the both parties.
 2. The seller may reject your offer. Any rejection of even the slightest provision makes the contract non-binding.
 3. The seller may change the terms of the contract and counter-offer the original contract. It may come back as a new document, changes to the original document, or added pages to the original contract. The buyer can accept the seller's counteroffer or walk away from the deal entirely and receive their earnest money back.
 4. You have the right to counter the seller's counteroffer. You will simply change the terms of the seller's counteroffer as advised by your agent. Your agent will go back to the seller with your counter-counteroffer and seller repeats the process over again. The negotiation can go on forever with counter-offers to the counter-offers. But most offers are reached on the 2nd or 3rd round.
- The seller may entertain a second offer. In a seller's market, it is common for the seller to receive several offers. Of course, the seller will take the best offer which may include a better price, lesser terms in the sales contract, larger earnest money deposit, or that the contract shows greater financial qualification such as a pre-approved mortgage application.

The seller can have several contract offers and may try to play one against the other. Don't accept any oral messages. Make sure the seller responds to your contract with a formal written proposal.

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Home Buying Guide Step 3: Making the Offer



Acceptance:

- Once both parties agree to the terms and sale price stated in the contract, the terms of the contract are binding on both parties.
- If you change your mind for any reason and breach the terms of the contract, the seller has the right to declare the contract null and void and retain your earnest money. You may also be liable for any other financial damage suffered by the seller and the seller's agent.
- If the seller fails for any reason to complete the sale of his home according to the terms stated in the contract, the earnest money will be returned to you and the seller may be liable for any financial damage.



Home Buying Guide



Step 4: Understanding The True Cost

Topic: [PITI / Escrow](#)

Topic: [Local Property Taxes](#)

Topic: [Hazardous Insurance](#)

Topic: [Other Costs \(PMI\)](#)

Topic: [Estimating Your Total Payment](#)

[\(link to PlansForMe for Calculation\)](#)

Home Buying Guide Step 4: Understanding Cost



PITI / Escrow Payment

- The total cost of a mortgage has four elements:
 1. Principal
 2. Interest
 3. Taxes
 4. Insurance
- Principal represents the amount you borrow, which has to be repaid over time.
- Interest is the cost that lenders charge for the use of their money during your repayment schedule.
- Taxes is an assessment that local governments collect on property to pay for local services. Property tax rates will vary by location and can affect your total cost and affordability.
- (Homeowners) Insurance will be required to replace the value of loan in the event of a disaster such as fire, earthquake, flood, etc.
- These four cost components:

Principal + Interest + Taxes + Insurance (PITI)

= Total Cost of Your Mortgage Loan

Many times buyers ignore these additional costs when figuring how much of a home they can afford.

- PITI is part of the formula that lenders use when calculating your affordability ratios.

[see our discussion on affordability ratios](#)

Home Buying Guide Step 4: Understanding Cost



Understanding Escrow:

- Property taxes and insurance costs must be collected and paid when they are due.
- In most cases, lenders will make the collection by allocating each month to your mortgage payment the amount you need to pay for taxes and insurance.
- These collections are placed in escrow, a depository account that the bank manages.

Your total monthly payment will include payments for real estate taxes, insurance, and Private Mortgage Insurance (PMI) and other items that are placed in escrow and used to pay taxes, insurance, PMI and other items on your behalf when they come due.

- Note that the escrow portion of your monthly payment may increase or decrease, depending on the change of your taxes and insurance assessments.
- If your mortgage does not have an escrow account, you will be required to pay your taxes and insurance separately and show proof of payment to your lender.



Local Property Taxes

- Your county and city may levy taxes on your property. These taxes pay for government services such as schools, roads, police, and other community services.

Information on property tax use:

<http://www.freeadvice.com/law/591us.htm>

- The annual tax is usually calculated as a percentage (factor) of your property's appraised market value. For example, an assessment may look like this:

\$0.94 per \$100 in appraised value

this calculates into a tax factor of 0.94% on the appraised value of your home

Contact your local community and county officials to determine your county and city tax factor.

Home Buying Guide Step 4: Understanding Cost



Lookup county and city governments:

<http://www.statelocalgov.net>

- Many of these local real estate taxes may qualify for tax deductions. Check with your tax advisor for more information.

Deductibility of real estate taxes:

<http://www.irs.gov/formspubs/...>

Publication 530: Tax Information for First-Time Homeowners:

<http://www.irs.gov/formspubs/...>

Download Publication 530:

<http://www.irs.gov/pub/irs-pdf/p530.pdf>

Download IRS1040, Schedule A: Itemized Deductions:

<http://www.irs.gov/pub/irs-pdf/i1040sa.pdf>

- At your home closing, you will be required to prepay up to one year's cost of your property tax.

Then each month, your loan payment will include 1/12 of the annual property tax that will be deposited in your escrow account until the property tax payment is due.

- Estimate your tax payments: [see PlansForMe.com](http://www.PlansForMe.com) for calculation.



Hazardous Insurance

- You may be required to carry hazardous insurance on your home in the event of a fire, flood, disaster, and any other natural disaster that destroys or partially destroys your home.
- The insurance will protect your investment (and the lender's) and repair any damage that may occur. The annual premium may vary depending on your home area and location. You must provide proof of insurance before closing and settlement.

Home Buying Guide Step 4: Understanding Cost



Looking for hazard insurance for your home?

Analyze insurance companies:

<http://www.ambest.com/>

Receive home insurance quote:

<https://secure1.insweb.com/cgi-bin/homeowners.exe>

another insurance quote listing:

<http://www.netquote.com/>

- At your closing, you may be required to prepay up to one year's cost of hazardous insurance.

Then each month your loan payment will include 1/12 of the annual hazard insurance premium to be deposited in your escrow account until payment is due.

- Estimate your insurance costs: [link to PlansForMe.com to calculate](#)



Other Costs (PMI)

- There may be other associated costs that may be included in your escrow payment such as Private Mortgage Insurance, tax liens if any, etc. Check with your real estate agent or your legal council to determine what other charges may apply.

What About Private Mortgage Insurance Costs (PMI):

- Private Mortgage Insurance (PMI) is mortgage default insurance that is required for all conventional mortgage loans with less than a 20% down payment. It is designed to pay the lender a portion of the outstanding balance of a loan in the event the homeowner defaults.

for more information about PMI: <http://www.privatemi.com/>

Home Buying Guide Step 4: Understanding Cost



- If PMI is required as part of your loan, the initial annual premium will be included in your closing costs while your subsequent premiums (1/12th of your annual premium) will be included in your monthly mortgage payments and deposited in your escrow account.
- You need to check with your lender to estimate your cost percentage for PMI if your down payment is less than 20%. Nationally, the average annual percentage is around 0.005 of your loan balance.



Home Buying Guide



Step 5: Picking The Right Mortgage

The guide will link you to our companion site for information:
PickMyMortgage.com

Topic: [Mortgage Lending 101](#)

Topic: [Picking-Your-Mortgage Steps](#)

Topic: [Fixed-Rate Mortgages](#)

Topic: [Adjustable Rate Mortgages](#)

Topic: [Hybrid / Combo Mortgages](#)

Topic: [Balloons, RIM, Others](#)

Topic: [Jumbo / Construction Loans](#)

Topic: [Government Loans \(FHA, VA\)](#)

Topic: [No/Low Down Payment Loans](#)

Topic: [Less-Than-Good Credit](#)

Home Buying Guide



Step 6: Qualifying for a Mortgage Loan

Lenders use several criteria to qualify a homebuyer for a mortgage loan. The most important criteria include the following:

Topic: [The Home Appraisal](#)

Topic: [Your Credit Rating \(discussed in Step 1\)](#)

Topic: [Your Capacity to Repay the Loan](#)

Topic: [Your Employment](#)

Other Information:

Topic: [Your Rights Upon Submission](#)

[\(link to PlansForMe for Information\)](#)

Topic: [What's Needed for the Application](#)

Home Buying Guide Step 6: Understanding Cost



The Home Appraisal

- Lenders will not extend you a \$200,000 loan to buy a house if comparable homes within the neighborhood are valued at \$150,000.

Regardless of what you are willing to pay for the home, lenders would be taking a sizeable risk if you defaulted on the loan.

- That is why lenders complete a home appraisal before they qualify any mortgage loan amount.
- Most lenders qualify loan amounts at 80% LTV, which means that they will underwrite a loan that is 80% of the appraised or purchase value of the home (whichever is lesser in most cases).

This requires the homebuyer to raise the other 20% — your down payment.

[we have an LTV calculator](#) that estimates your required down payment

- The 80% LTV rule protects the bank in the event of market declines. The 80/20 rule also forces the home buyer to have some vested interest in their real estate purchase.

With a 20% equity position, home buyers are more likely to keep the home value up by making repairs and improvements.

- There are some mortgage products that allow lenders to lower the 80/20 rule — meaning that the lender will approve loan amounts at 85%, 90%LTV or more.

These loans are generally government sponsored programs that insures the bank from loss in the event of a default. Click for product information at: PickMyMortgage.com

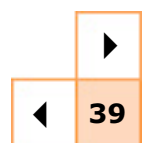
Lenders will also extend loans at levels greater than 80% if the homebuyer obtains mortgage insurance. See our notes on mortgage insurance.

- Check home values within an area:
<http://www.domania.com/index.jsp>

Detailed neighborhood analysis:
<http://www.neighborhoodplace.com>



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Home Buying Guide Step 6: Understanding Cost



Your Capacity to Repay the Loan (Income Ratios)

- Your capacity to repay the mortgage loan is an important factor for lending institutions to qualify an applicant for a mortgage loan.
- If capacity ratios are too high, you will need to change one of the following parameters in order to qualify for a mortgage loan:
 - reduce your borrowed amount
 - increase your amount of down payment
 - qualify for a mortgage loan that has a lower rate
 - apply for federal assistance sponsored loans
 - increase your income
 - pay off outstanding debts
- The total cost of your mortgage loan (PITI) will be used to calculate these ratios. [See our discussion on PITI.](#)

Lenders use two debt ratios:

1: The "housing ratio": calculated by dividing monthly housing expenses by your gross monthly income. As a basic rule, the housing ratio should not exceed 28%.

What are your monthly housing expenses:

- * mortgage loan payment on your new home including interest and principal
- * real estate taxes
- * hazardous insurance
- * private Mortgage Insurance, if any
- * other mortgage related insurance
- * homeowner's association dues
- * ground keeping fees
- * property leases
- * other special assessments and financings

Home Buying Guide Step 6: Understanding Cost



Monthly Income includes the following:

- * employment income
- * overtime bonuses and commissions
- * net self employment income
- * alimony, child support and income from public assistance
- * social security, retirement, and VA benefits
- * workman's compensation or permanent disability payments
- * interest and dividend income
- * income from trust, partnerships, etc.
- * net rental income

Housing Ratio Calculator: ([click to PlansForMe.com for calculator](#))

2: The "debt-to-income ratio": calculated by dividing your fixed monthly expenses by your gross monthly income. As a basic rule, the debt ratio should not exceed 36%.

What are your fixed monthly expenses:

- * monthly housing expenses included above
- * monthly installment loan payments
- * monthly revolving credit line payments
- * real estate loan payment on non-income producing property
- * alimony and child support
- * any tax or legal assessments.

Debt-to-Income Ratio Calculator: ([click to PlansForMe.com for calculator](#))



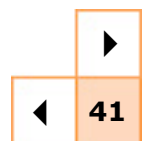
Your Employment

- Your capacity to repay the mortgage loan is contingent on your employment and the income it produces.

Lenders like to see mortgage applicants in steady jobs with verifiable income.

- Lenders will likely call your employer to verify your employment position and salary/wages.

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Home Buying Guide Step 6: Understanding Cost



Any discrepancy in your reported employment and income may raise additional questions that can disqualify you for a mortgage loan.

- Self-employed individuals will require additional documents to ensure lenders that the applicant has steady income

These documents will include your personal tax filings and other information as required.

[see items required for submitting your application.](#)



Items Needed for the Application

General Information:

Lenders have different mortgage application requirements. Typically however, the information you may be expected to provide include the following:

- Social Security Number:
for borrower and co-borrower
- Employment History:
employment for two years; dates and addresses; salary; current pay stubs or W-2 forms
- Check and Savings Accounts and Certificates of Deposits:
location of bank accounts, account numbers and balances; address of bank if out of town and be prepared to provide the last 3 months statements
- Stocks, Bonds, and Investment Accounts:
broker's name and address, description of stocks, bonds, etc. and the last 3 months statements or copies of stock certificates.
- Life Insurance Policies:
insurance company, policy number, face amount, cash value, if any
- Retirement Plan:
approximate vested interest value, copy of latest statement

Home Buying Guide Step 6: Understanding Cost



- Automobiles:
make and model of automobiles, their resale value if possible
- Other Assets:
market value of personal and household property
- Liabilities and Other Non-Mortgage Debt:
creditors names, addresses, account numbers, monthly payments, and balances

Real Estate Information

Current Property Information:

- If you own real estate:
name and address of all mortgage lenders for the past 24 months, account numbers, monthly payments and balances.
- You've sold your home but not closed:
a copy of the sales contract
- You've sold your home, closed, and will be used for down payment:
a copy of the HUD 1 Uniform Settlement Statement
- If you rent:
name, address and phone number of landlords for the past 24 months

Property Being Purchased:

- Purchase sales contract or offer to purchase and all addendum:
furnish contract with original signatures of buyer and seller

Other Documents That May Be Required

- Gifts to be used to qualify:
if a source of your down payment is a gift, provide name, address and relationship of donor. Gift funds will be verified in both the donor and recipient's accounts.

Review Zero Down Mortgage at: PickMyMortgage.com

Home Buying Guide Step 6: Understanding Cost



- **FHA Financing:**
provide evidence of Social Security Number and photo identification

Review FHA Qualifications at: PickMyMortgage.com
- **VA Financing:**
provide DD214 and Certificate of Eligibility

Review VA Qualifications at: PickMyMortgage.com
- **Construction/Perm Loan:**
signed construction with cost breakdown, builder plan and specifications

Review our Construction/Perm Mortgage at: PickMyMortgage.com

Information Regarding Unusual Income

- **If Self-employed:**
furnish 2 years tax returns, profit and loss statements, both company and personal if separate. Current balance sheet and profit and loss statement if more than two months into the new fiscal year, signed by a CPA.
- **Non-salaried Income:**
personal federal income tax returns for the past 2 years, if you have income from:
 - * Commission
 - * Overtime
 - * Bonus
 - * Partnership
 - * Rental Property
 - * Trust
 - * Notes Receivable
 - * Interest/Dividends
- **Employed in Family Business:**
Personal federal income tax returns and all schedules (past 2 years)
- **Divorced or Separated:**
complete executed divorce decree and settlement agreement. Payment history of alimony/child support over the past 12 months, if it is a financial obligation.

If you choose to have this be considered as part of your income, be prepared to provide 12 months canceled checks or bank statements reflecting income deposits.



Home Buying Guide



Step 7: Closing and Settlement

Lenders use several criteria to qualify a homebuyer for a mortgage loan. The most important criteria include the following:

Topic: [Home Inspection](#)

Topic: [Final Walk Through](#)

Topic: [Closing Costs Estimates](#)

Other Information at PlansForMe.com:

Topic: [Notes: House Closing Introduction](#)

Topic: [Notes: Getting Ready for Closing](#)

Topic: [HUD-1 Settlement Statement](#)

Home Buying Guide Step 7: Closing/Settlement



The Home Inspection

- Having your new home thoroughly inspected before closing can protect you against unforeseen damages:
- The seller is under contract to deliver the plumbing, heating, electrical (including light fixtures and ceiling fans), air conditioning, fireplace, all built-in appliances, and if one exists, swimming pool in working condition. The roof must be free of visible leaks. The structural component of the house must be good condition at the time of closing.
- The seller is obligated to make or pay for repairs, if any, to place the above items in working condition. The cost of the repairs is subject to a repair limitation stated and agreed to by both the buyer and seller.

Finding a Good Inspector

- Ask your friends, family, real estate agent, attorney or lender to recommend a good inspector. Look for inspectors who are members of the American Society of Home Inspectors (ASHI) or who are members of professional affiliations.

The ASHI sets the standards for home inspections and requires its members to abide by a code of ethics and standards.

ASHI Inspector search:

<http://www.ashi.org/find/>

- The cost for the inspection will vary between \$250-350, which the buyer is obligated to pay. The inspection usually takes 2-3 hours to complete. The home buyer should accompany the inspector so that you can ask questions and assess how much repair may be required, if any.
- Most inspectors use a checklist that they mark and note any repairs as they inspect the home. The Inspection Report usually provides maintenance tips on how to keep the home and property in good shape.
- If the inspection finds serious flaws in the house such as cracks in the interior walls due to settling, you will probably walk away from the contract based on your contingency clauses. The last thing you need is major repairs costs on your new home.

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Top-ten inspection list — from [inspectamerica.com](http://www.inspectamerica.com)
http://www.inspectamerica.com/html/top_ten_list.html

[View the Inspection Report at PlansForMe.com](#)



Completing the Final Walk Through

- Before closing on your home, it is advisable to complete a final walk through the home. This will likely be the first opportunity to examine the house without furniture, wall hangings, occupied closets and storage, etc.
- Check the walls and ceilings thoroughly to make sure all necessary repairs that have been agreed to are done. Review the inspection points. Ensure that everything noted on the inspection report have been completed as specified.
- Make one more visual inspection as you complete your final walk through:
 - * run the appliances to see if they operate properly
 - * run the air conditioning and test for broken window seals
 - * investigate any bad floor spots
 - * check the walls for damage
 - * check the wall's and ceiling's paint/wall paper
 - * inspect the attic for structural damage
 - * eye under the outside eaves for structural damage
 - * investigate potential drainage problems
 - * check the driveway and sidewalk for damage
 - * check for paint peeling's
 - * review the exterior for animal damage.



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Closing Costs Estimates

- You can expect to pay a number of fees when you close on your home. Closing refers to the time when you formally buy the home and transfer the title from the seller to the buyer.
- There are two categories of closing costs:
 1. lender closing costs
 2. independent closing costs
- Some closing costs are negotiable. You are more likely to negotiate lender closing costs.

In some "buyers market" where home sales are not as strong, you can often negotiate with the seller to pick up a portion of the closing costs.

- Closing costs can average around 7% of the home purchase price. These costs can vary widely from 3% to 10% depending on your location and whether you pay points.
- Closing costs are typically paid at the time of closing and can be a significant portion of your home savings. So budget and plan wisely.
- For a survey of selected closing fees and charges for home mortgages: [click here.](#)

What Makes-up Closing Costs:

Upon completion of your application, you will receive a "Good Faith" estimate that itemizes your projected closing costs. This is an estimate of costs only and does not signify the true amount of your closing costs. Costs may vary by area.

Listed below are the most common closing costs with their related range of fees. Please note that fees will differ by location and circumstances.

To review a more detailed look at the closing:
[link to the HUD-1 Settlement Statement Booklet.](#)

- Application Fee:

some lenders may charge an application fee to process and finalize your mortgage application. This is generally a flat fee ranging from \$75 to \$300. Other lenders may charge a percentage of the mortgage loan amount (avoid these lenders).

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You should check with your lenders before submitting your application. Some lenders will refund the fee if fail to qualify.

Money Saving Tip: there is zero cost to submit your mortgage application through our financial network. It is entirely FREE. Lenders will compete for your business and provide an estimate of their terms if they can verify the information that you submitted.

If you choose to work with one particular lender, they may require you to complete a more thorough application where they may charge an application fee.

Negotiate with the lender to waive the fee since much of the information they need to approve your mortgage was provided by our network.

- **Appraisal Fee:**

Lenders must appraise the property to verify its value. Fees can range from \$200-500. You can negotiate this fee with the lender on selecting an less expensive appraiser.

- **Attorney's Fees:**

Your attorney (or closing agent) will prepare and review the closing documents. These fees can range from \$200-\$500.

Some lenders may also charge fees for the lender's attorney services in connection to your mortgage. This is a fee you can negotiate down with the lender.

- **Credit Report Fee:**

Lenders will pull your credit report to qualify you for a loan. This fee is generally passed onto you once your application has been approved. The fee can range from \$45-75.

- **Escrow Fees:**

In most cases, lenders will setup an escrow account to collect fees for paying taxes, homeowners insurance, and other required collections: see escrow account discussion

You will be required at closing in most cases to prepay from 6 months to 1 year of taxes and homeowners insurance. These fees will be placed in escrow and used when tax assessment and insurance premiums are due.

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Pre-paid taxes and insurance can range from \$1,500 to \$4,000, depending on your area and tax assessment.

There is little room for negotiation of prepaid taxes and insurance.

- **Loan Origination Fees:**

These are the points that you pay the lender for extending you a loan. A point equates to 1% of the mortgage loan balance; e.g., \$100,000 at 2 points equals \$2,000.

This can be the most significant portion of your closing costs. This is an area where you can negotiate.

- **Lock-in Fee:**

if you lock-in your rate at a certain time prior to closing, the lender may charge you a rate lock-in fee.

This fee can range from 0.5% to 1.0% of the mortgage loan amount. Negotiate this fee with your lender prior to locking in your rate.

- **Mortgage Insurance:**

There may be two types of mortgage insurance:

1. **mortgage default insurance:**

private mortgage insurance (PMI) that protects the lender in the event you default on your loan. PMI is required for home buyers whose down payment is less than 20%. Costs may vary.

2. **mortgage life insurance:**

insurance that names the lender as the beneficiary in the event of your death. This insurance may or may not be required as part of your closing and may be negotiable.

- **Notary, Recording, Survey Fees:**

these are mandatory fees often required by local governments.

The notary fee guarantees the signatures to the document. This fee can range about \$50 or less.

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Recording fee pays for the recording of closing documents into the county records. This fee is about \$50.

Survey fees pays the surveyor to show the exact boundary, location, and legal description. The cost can range from \$200-\$400 and may be paid by the seller in some areas.

- Title Search and Insurance:

title search is where the lender (and you) ensure that the property purchase is free and clear of all obligations. This means that no party has a claim on the house because of unpaid dues, legal suits, and other.

Title search will be completed by an attorney or title company. However, some claims on your house can be missed during search. That is why the lender and you want Title Insurance, which protects your home from any claims that may pop-up in the future. Title Insurance is a one-time fee that you pay at closing.

Both the Title Search and Title Insurance are combined into one fee that can range from \$400-\$700.



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