



# Homebuyer's Toolkit

TEN STEPS TO CHOOSING AND PURCHASING YOUR HOME



# You Want to Buy a Home

It's a big decision and there's a lot to learn, but you've decided to buy a home. This comprehensive, quick-reference guide provides the information and tools you need to help you find a home that's right for you. As you follow these ten steps, gather information and complete the worksheets, you will chart a personalized map that will help you find, purchase, and finance a home that meets your needs and preferences.

## 10 Steps to Choosing and Purchasing Your Home

1. Find a Qualified Buyer's Representative
2. Assess Your Credit and Finances
3. Assess Your Wants and Needs
4. Shop for a Home
5. Negotiate Terms
6. Obtain a Mortgage
7. Prepare for the Close (Transfer Ownership)
8. Close
9. Move
10. Celebrate

*The Homebuyer's Toolkit is published by the Real Estate Buyer's Agent Council (REBAC), a subsidiary of the National Association of REALTORS® (NAR), and the organization that awards the Accredited Buyer's Representative (ABR®) professional designation. REBAC and its members offer this Toolkit as a service to help educate homebuyers, because knowledge and information are the best tools for a successful home-buying experience.*

# 1

## FIND A QUALIFIED BUYER'S REPRESENTATIVE

How often do you purchase real estate? Once, twice, three times in your lifetime? So you can hardly be expected to know all the ins and outs of such a major transaction complicated by so many details. In most transactions, sellers are represented by a listing agent who minds these details and their client's best interests. As a buyer, don't you also want complete and fair representation in your real estate transaction? Real estate buyer's representatives are responsible for protecting the best interests of their clients—buyers like you—and can guide you through every step of the process. So the first step, and perhaps the most important, is finding your buyer's representative.

### **What is a Buyer's Representative?**

Defined most simply, a buyer's representative (or buyer's agent) is an advocate for the buyer—not the seller—in a real estate transaction. Real estate laws and regulations vary from state to state, but buyer's representatives usually owe full fiduciary (legal) duties, including loyalty and confidentiality, to their buyer-clients and keep their best interests in mind through the entire transaction.

In some states, consumer protection legislation has been enacted that defines the assumed relationship between a buyer and a real estate agent as that of client and buyer's representative. Regardless, to ensure that you are working with a buyer's representative, the two of you should sign a written buyer representation agreement that defines your buyer's representative's responsibilities and obligations, and yours also.

Consult with your local REALTOR® Association or state real estate regulatory agency for the agency laws that govern your state.

### **Why Should I Use a Buyer's Representative?**

The two most important reasons to use a buyer's representative are protection and efficiency.

Most likely, the seller of whatever property you buy will be represented by a listing agent who can provide expertise throughout the transaction. Don't you want the same kind of service as a buyer? A buyer's representative can provide you with the expertise you need through the entire transaction.

According to NAR research, buyers who work with a buyer's representative also find their homes quicker, while viewing more properties in their search, than buyers who do not engage a buyer's representative.

# 2

## ASSESS YOUR CREDIT AND FINANCES

### Determine Your Credit Status

Because any lender you apply to for a mortgage will verify your credit history, it's wise to check your own credit rating in the beginning of your home search, even if you're sure you have an excellent credit record. There may be blemishes in your credit history that you don't know about. Identifying and resolving any credit problems to improve your credit rating will provide benefits, such as preferred rates from lenders and home insurers. Acquiring a copy of your credit report is simple.

The Fair Credit Reporting Act allows consumers to obtain one free credit report from each of the three major reporting bureaus every 12 months. To obtain a report visit: [www.annualcreditreport.com](http://www.annualcreditreport.com)—the only authorized source for consumers to access their annual credit report online for free. Or, call 877-322-8228.

The three major credit bureaus:

#### **Equifax**

[www.equifax.com](http://www.equifax.com)

Information Service Center

P.O. Box 740241

Atlanta, GA 30374-0241

800-685-1111

#### **Experian**

**(formerly TRW)**

National Consumer

Assistance Center

[www.experian.com](http://www.experian.com)

P.O. Box 949

Allen, TX 75013-0949

888-EXPERIAN

(888-397-3742)

#### **Trans Union**

**Corporation**

[www.transunion.com](http://www.transunion.com)

Customer Disclosure

Center

P.O. Box 390

Springfield, PA 19064-0390

800-888-4213

### Pre-qualification vs. Pre-approval

Typically you will first pre-qualify for a mortgage, then get pre-approved before you have found the specific home you wish to purchase. What is the difference?

**Pre-qualification:** An informal determination by a lender or mortgage broker stating the amount of the mortgage you can afford.

**Pre-approval:** A guarantee in writing by a lender to grant you a loan up to a specified amount.

There are two advantages of being pre-approved for a loan as early as possible in your home-buying process:

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## ASSESS YOUR WANTS AND NEEDS

This exercise will help your buyer's representative identify specific homes to show you. If you have other needs and/or desires, be sure to list these and discuss them with your buyer's representative.

### Home Feature Prioritizing Tool

Ideal Price \_\_\_\_\_

# of Bedrooms—Minimum \_\_\_\_\_

# of Bathrooms—Minimum \_\_\_\_\_

Garage—# of Cars \_\_\_\_\_

Lot Size \_\_\_\_\_

Age of House \_\_\_\_\_

Square Feet of House \_\_\_\_\_

Style of House \_\_\_\_\_

Number of Floors \_\_\_\_\_

Type of Neighborhood \_\_\_\_\_

### Determining What You Need Versus Want

Rate the features below on a scale of 0 to 10, with 0 being those things you absolutely don't want and 10 being those things you must have.

<b>Eat-In Kitchen</b>	0	1	2	3	4	5	6	7	8	9	10
<b>Separate Dining Room</b>	0	1	2	3	4	5	6	7	8	9	10
<b>Fireplace</b>	0	1	2	3	4	5	6	7	8	9	10
<b>Family Room</b>	0	1	2	3	4	5	6	7	8	9	10
<b>Finished Basement</b>	0	1	2	3	4	5	6	7	8	9	10
<b>Homeowner Association</b>	0	1	2	3	4	5	6	7	8	9	10
<b>Amenities</b> ( <i>security gate, community pool, tennis courts</i> )	0	1	2	3	4	5	6	7	8	9	10
<b>Pool/Spa</b>	0	1	2	3	4	5	6	7	8	9	10
<b>Patio/Porch</b>	0	1	2	3	4	5	6	7	8	9	10
<b>Yard</b>	0	1	2	3	4	5	6	7	8	9	10
<b>View</b>	0	1	2	3	4	5	6	7	8	9	10

On the next page is a blank form for you to fill in other features that you may want in your home and rate their importance.

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## SHOP FOR A HOME

### Big Choices That Will Make a Big Difference

The decisions you make in the home-buying process will determine the neighborhood and home where you will live—and the financial terms by which you will pay for your home. But with so many neighborhoods and all the homes on the market in each one, narrowing your choices can be a harrowing task, especially if you're not familiar with the area. Your buyer's representative can be invaluable, helping you find resources to learn what you need to know to make informed decisions.

**Note:** Under Federal Fair Housing Laws it is unlawful for a real estate professional to engage in conduct that is discriminatory on the basis of race, religion, color, national origin, sex, handicap, or familial status. A real estate professional should never steer you towards or away from a particular neighborhood if the homes there fit your needs and are within your range of affordability.

### Factors to Consider When Evaluating a Neighborhood

Spending time in a neighborhood can tell you a lot about it, but not everything; you also need to do some research. Depending on your particular needs and preferences, some factors will be more important than others, but things to consider include:

**Neighborhood Profile:** Research neighborhood aspects such as population density and the level of commercial development. Ask yourself “What kind of neighborhood do I want to live in?” City? Suburban? Small town? Rural?

**Household Data:** Take into account family type, average household income, and homeowner education level and occupation.

**Crime Rate:** Crime is an unfortunate reality we must all deal with. Probably no neighborhood is totally immune from the risk of crime, but by researching the incidence of reported crime in the neighborhoods you are considering, you can make an educated decision about where you live.

**Quality of Schools:** Base your evaluation on school performance, as determined by average test scores, spending per student, and the percentage of college-bound students and national merit scholars.

**Amenities:** What features you want in a neighborhood will be determined by the lifestyle you lead. Amenities to consider include proximity to: schools, place of employment, shopping, transportation, parks and recreation, restaurants and nightlife, cultural institutions, and natural resources, such as state parks.

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## NEGOTIATE TERMS

### **Making the Best Deal: Why Making the Deal is a Big Deal**

Once you've found the home you want to place an offer on, the next step is reaching an agreement with the owner about the price, how and when you can buy it. Throughout this process, there are many important considerations that can impact your finances, tax situation, and legal obligations. When you consider that you will live with the decisions you make about these issues—perhaps for a long time—just how big a deal your home purchase is becomes obvious.

Your buyer's representative can help you navigate the way through much of the transaction process, but may also advise you to consult legal and tax experts.

### **Negotiating**

Assess your negotiating position prior to making an offer. Here are some basic rules to help you.

You are in a strong bargaining position (the seller will look favorably on your offer) if:

- You are an all-cash buyer.
- You are pre-approved for a mortgage.
- You do not have a house you need to sell, or other contingency that must be met, before you can purchase the home.

With these factors in your favor, you may be able to negotiate a reduction on the listed price. On the other hand, in a “hot” seller's market, if your “perfect” home comes on the market, you may want to offer the list price (or more) to beat out other offers.

It may also be helpful to find out why the house is being sold and if the seller is under pressure to close a deal quickly. Consider that:

- Every month a vacant house remains unsold represents considerable added expense for the seller.
- If the sellers are divorcing, they may just want to close quickly.
- An estate sale often yields a bargain in return for a promptly closed transaction.

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## OBTAIN A MORTGAGE

### Selecting a Lender

When selecting a lender, your goal is to obtain a mortgage loan with terms that are most favorable to your situation. In order to find the best home loan for you, contact several lenders to discuss the mortgages they offer, their rates, closing costs, and other fees. If you have a mortgage now, contact that institution. Mortgage loans are available from many sources, including:

- Mortgage companies
- Savings and loan associations
- Banks
- Credit unions

### Rates and Duration

Two of the biggest choices you'll make in determining your mortgage are the interest rate and duration. Combined with the amount you borrow, they will largely determine the amount of your monthly payment. The interest rate is the percentage of the loan amount you are charged to borrow the money; the higher the rate the more you pay. Mortgage rates change, subject to various economic factors. To be more certain of what they pay, most buyers "lock" their rate when they apply for their mortgage. A lock means that the rate in the approved application will be valid for a set period of time—during which the deal must be closed—regardless of what market interest rates are at the time of closing. With fixed-rate mortgages, usually 15- or 30-year, you are charged the same percentage over the life of the mortgage. The rate changes in an Adjustable-Rate Mortgage, or ARM, after a set number of years.

### Closing Costs and the Truth in Lending Statement

There are other costs associated with a mortgage. They might include an appraisal and "points," a fee based on the amount of the loan. Depending on the amount of your down payment, you may also be required to carry mortgage insurance, a policy that pays your mortgage if you are unable to. So that you can see all that you're paying for the home over the length of the mortgage, you will be given a Truth in Lending Statement, which is a federally-required good-faith estimate of all the costs associated with your mortgage and the purchase of your home.

### Applying for a Loan

At this stage, you may have already made an offer on a house, decided what type of mortgage you want, and selected a lender. The next step is to fill out a loan application. Your buyer's representative and lender together can help you understand:

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## PREPARE FOR THE CLOSE

### Homeowners Insurance

The financial institution providing your mortgage will demand that the home you are purchasing is insured, so you must obtain homeowners insurance before closing and provide proof of the policy. Allow plenty of lead time before closing to find homeowners insurance. Costs and coverage can vary, so obtain at least three quotes from different companies. When evaluating the policies to find the right one for you, consider questions such as:

- What is covered?
- What is not covered?
- How much will the insurance cost?
- Are discounts available for such things as smoke detectors and fire alarms, burglar alarms, non-smoking owners, combined auto and home policies, higher deductibles?
- What is the deductible?
- Is the home in an area prone to hurricanes where wind insurance may be a separate policy?
- Is the home in a flood zone where separate flood insurance is required?

**Note:** Some personal items such as expensive jewelry or valuable collectibles may not be covered in standard homeowners policies. When getting your quotes, include an inventory of your possessions to see if riders are required to cover these items.

To determine eligibility and premiums, insurers are increasingly investigating an applicant's claims history. Past claims made on the property to be insured are also a factor in determining coverage and premiums. Some insurers also examine the applicant's credit report.

### Complete a Home Inspection

REBAC recommends that you have the home you want to purchase professionally inspected—even if it's new construction—to identify potential expenses that might not be immediately detectable during your viewings of the home. (Imagine finding out that you need a new roof or furnace the day after you move into your home.) Schedule an inspection with a qualified home inspector within the time specified in the inspection contingency of the purchase contract. Your buyer's representative should be able to assist you in identifying a number of inspectors to choose from.

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## CLOSE

The actual and legal transfer of ownership is called the closing, or settlement. Possession is usually transferred at closing too, but not always. For various reasons, the seller may request to close the sale yet retain possession, renting the property from the buyer until the seller vacates the property and possession is transferred.

Who attends the closing? Usually:

- You, the buyer
- The seller
- The closing agent, the title insurance representative, and the escrow agent. One person may fill all these roles, coordinating the settlement of the documents, recording them, disbursing funds, and handling the details of the closing.
- The real estate agents
- Your attorney
- The seller's attorney

### Steps in the Closing Process

There are a number of steps that must take place between the time you and the seller sign the contract and attend the closing meeting. It can take several weeks, in fact, to complete these steps—six to eight weeks is not uncommon.

#### **Setting the Closing Date**

Part of the contract negotiations, when the closing takes place is decided by the buyers and sellers, providing ample time for the preparation of the legal documents for both the transfer of title and for the mortgage. You need to provide time for your mortgage to be approved and to sign the lender's letter of commitment. The closing must take place before the mortgage interest rate lock expires, but remember that you will also need to complete the home inspection and acquire homeowners insurance in addition, perhaps, to other duties.

#### **Reviewing the Documents**

Ask for the documents before the actual closing and read them carefully. It might be a good idea to ask your attorney and your buyer's representative to review them with you. This will help you understand the documents before you sign them.

#### **Understanding the Closing Costs**

Closing costs can include many different expenses and can add up to a sizeable amount of money. Be prepared. Know exactly what your closing costs are and how much you will be expected to pay at the closing meeting. These amounts will be

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## MOVE

### **Plan and Prepare**

You found your home, the contract has been signed, and the closing date set. Now, it's time to prepare for moving day. You should, however, begin planning for it well in advance. You might find that moving is the biggest job of all. But whether you are moving immediately after closing or have the luxury of extra time after closing, whether you are moving across town or across the country, planning and preparation are essential.

### **Making a Plan**

Making a moving plan prior to closing will be one of the most beneficial things you do for yourself. By developing an outline of moving costs, making a moving checklist (example on page 27) and investigating moving companies, you can eliminate or at least reduce many of the surprises and hassles that moving often entails.

### **Costs, Insurance, Packing, and Income Tax**

One of the greatest surprises to first-time and even repeat buyers is the variety of expenses associated with moving. They include everything from packing materials and utility hookups to insurance for your valuables and the actual cost of the movers, or truck rental. When selecting a moving company, ask friends and family if they have any recommendations. Call at least two companies for estimates, which should be cost- and obligation-free. You can expect professional movers to come to your home, discuss your move in detail and provide many recent referrals. Check their referrals, especially if you didn't find the mover through a personal recommendation. Before selecting your mover, confirm that the company is insured, thereby providing at least some coverage for your belongings. Three of the most common forms of insurance coverage are basic liability, declared value protection or actual cash value, and replacement value. You may need to buy more coverage or specialized coverage for certain items such as antiques and works of fine art. Contact your homeowners insurance company to see if your policy also covers moving.

If your move is job-related, many of your moving expenses may qualify as income tax deductions. Consult a tax professional for details.

# APPENDICES

## Homebuyer's Glossary

**ABR®** Accredited Buyer's Representative. A designation held solely by REALTORS® who have met the educational and practical requirements demonstrating skills and knowledge to represent homebuyers. Awarded by the Real Estate Buyer's Agent Council (REBAC).

**adjustable-rate mortgage (ARM)** A mortgage with an interest rate that changes, based on a specific index, after a predetermined number of years.

**agency** Any relationship in which one party (agent) acts for or represents another under the authority of the latter.

**amortization schedule** A timetable showing the amount of each mortgage payment applied to interest and principal and the remaining balance after payment is made.

**annual percentage rate (APR)** The cost of a mortgage stated as a yearly rate; includes such items as interest, mortgage, and loan origination fee (points).

**appraisal** A qualified appraiser's written analysis of the estimated value of a property.

**biweekly payment mortgage** A mortgage requiring payments every two weeks rather than the standard monthly payment. The benefit for the borrower is a substantial savings in interest over the life of the loan.

**broker** A person who, for a commission or a fee, brings parties together and assists in negotiating contracts between them.

**capital gains** The profit obtained from the sale of an asset, such as real estate.

**certificate of title** A statement provided by a title company or attorney stating that the title to real estate is legally held by the current owner.

**closing** A meeting at which a sale of a property is finalized.

**closing costs** Expenses incidental to a sale of real estate, such as loan fees, title fees, appraisal fees, etc.

**collateral** An asset (such as a car or a home) that guarantees the repayment of a loan.

**commission** The fee charged by a broker for providing services related to a real estate transaction, such as marketing the property (for the seller), finding a property (for the buyer), and negotiating a purchase contract.

