SURREALTY

# California Homebuyer's Guide

# All You Need To Know About The Homebuying Process

Owning a home is one of the biggest investments you will ever make. For this reason, it is not a decision that should be taken lightly. It is important as an aspiring homebuyer to consider your finances plus the pros and cons of home ownership.

## The Basics of the Homebuying Process

A lot of people mistakenly assume that buying a home involves locating a suitable house, placing a bid, and paying for the house. However, this is far from the truth. The process of finding a home can be grueling and frustrating, especially in a competitive real estate market.

The following are some of the steps involved in the homebuying process:

- The loan process
- Finding your dream home
- Working with a real estate agent
- Negotiating the home sale
- Inspections
- Escrow and closing
- Moving into your new home

# Are You Ready to Buy Your New Home?

While home ownership is a worthwhile investment, it is not ideal for everyone. Before buying your first home, it is important to evaluate your specific circumstances to determine whether buying a home is right for you.

Buying a home would be ideal in the following situations:

- Stable income and unlikely to relocate to another town or state in the near future

- Financially secure position and ability to pay the high upfront costs of buying a home

- Starting a family and would like more stability and emotional security

- Being part of a community

- Desiring a home without the restrictions from landlords

- Understanding all the costs associated with owning a home, including taxes and home repairs

Sure owning a home is very expensive, but it also offers many benefits. Including:

- You can build equity over a period of time. If you take out a mortgage to purchase a home, and depending on the type of loan, a portion of the payment goes towards paying off interest, while a portion goes towards the principal. The more you pay towards the principal, the more equity you will have in your home.

- There are quite a number of tax benefits that homeowners enjoy that renters do not. For example, homeowners can deduct property taxes and mortgage interest, thus reducing their overall tax burden.

- Potential of rental income. As a homeowner you can rent out a portion of your home, such as an extra room. Plus, there are both long-term and short-term rental options available for extra income.

- More creative freedom. You can renovate and customize your home to meet your needs as long as you do not violate local home building codes. With a rental, you may be even restricted in redecorating.

- As a homebuyer, you are able to cultivate a sense of community and belonging. Homeowners are able to do this because they often stay in the home they bought for much longer than most renters. They are therefore more likely to join neighborhood commu-

nities and participate in community activities.

## What You Need to Know About the Costs of Home Ownership

Some homebuyers assume that buying a home involves making a down payment and the monthly mortgage payments. However, the initial costs of home ownership are pretty steep. The costs of home ownership can be divided into a number of categories:

- Upfront and closing costs
- Recurring costs
- One-time costs

Upfront and closing costs - These include out-of-pocket costs and closing costs that the you as the homebuyer pays the seller after the latter accepts the purchase offer.

Earnest money - This is the payment made to the home seller by the buyer to show commitment and seriousness. This payment is usually about 1% - 3% of the total cost of the home, depending on the local market conditions as well as the preferences of the seller. This is held in a escrow account and credits the amount against the closing costs.

*What does escrow do? Escrow is a neutral third party committed to keeping funds safe and ensuring all parties in the transaction are paid. In addition to gathering all the documents, the escrow company will give final approval to the title insurance company that the sale can take place.*

Down payment - The down payment is a percentage of the total cost of the home that a homebuyer pays upfront. You pay this amount at closing, though you will indicate the amount in your purchase contract. Your down payment may depend on your credit profile and the type of mortgage you are approved for, though it typically ranges between 3.5% - 20% of the total cost of the home.

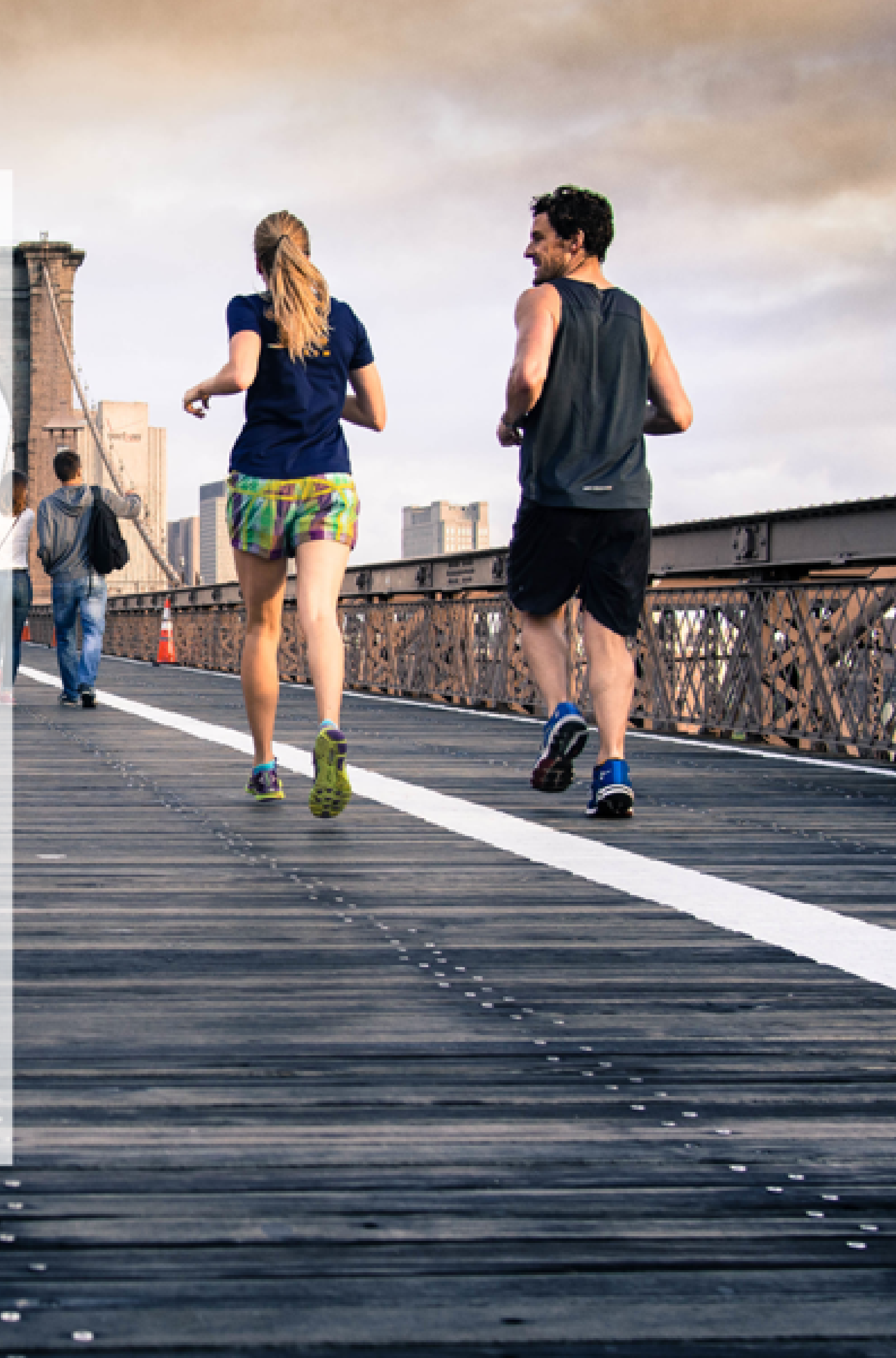
Home appraisal costs - In order to ensure that the selling price of the home matches its current value, most mortgage lenders will require a home appraisal before approving the mortgage loan. The homebuyer is responsible for paying the home appraisal costs.

Home inspection - Though this is not usually required, homebuyers are encouraged to get a home inspection by a licensed home inspector. This is because home inspectors are trained to find any defects or problems that may not be immediately apparent to the homebuyer. A home inspection can save the homebuyer from a regrettable purchase or expensive repairs in the future.

Property taxes - The owner of the property is required to pay property taxes upfront, often in six-month increments. Therefore, as the home buyer you may be required to compensate the seller for all the taxes paid between the date of closing and the end of the current tax period. These costs vary widely depending on the closing date, and the homebuyer may find themselves paying for up to six months of taxes, or they may not have to pay anything.

Homeowners' insurance - Some lenders may require the buyer to purchase homeowners insurance before closing. This cost usually varies widely, depending on the size of the home, the location, and the contents of the home.

Closing costs - Closing costs can add up very quickly, and it is important for homebuyers to plan for these costs beforehand. Some of the expenses involved include flood certification fees, credit report fees, recording taxes, loan origination fees,



attorney fees, and a closing fee.

Recurring costs - These are expenses that come with home ownership, and as the homeowner, you should be aware of them. They include:

Mortgage or Loan repayment - As a homeowner you must pay off the mortgage loan in the form of a monthly principal and interest payments. Depending on the terms of the loan, you will make monthly payments for 15 to 30 years.

Property taxes - The county or city sets the property tax rates, and this money goes towards building infrastructure and paying for critical services.

Homeowners' insurance - These insurance payments vary widely depending on the value of the home, the coverage amounts, and the policy's deductibles.

Private mortgage insurance - If you get a loan from a private mortgage lender, you may need to pay for private mortgage insurance. This insurance protects the private lender from financial loss in the case the home is foreclosed and sold at a price that is lower than the purchase price.

Utilities - As a homeowner, you are responsible for paying the utility costs of your home such as gas, water, recycling, electricity, and garbage disposal.

Maintenance costs - This includes replacing any worn out fixtures as well as taking care of interior cleaning and maintenance and inspection of appliances such as the HVAC.

One-time costs - These are one-time or unpredictable costs that the homeowner may have to incur. They include:

Furnishing - Purchasing fixtures and furniture for your new home.

Moving - Paying movers to help with relocation or moving costs. The cost of moving may depend on the distance, the number of items the person has, and whether or not they hire a moving company. You can also follow a Do-It-Yourself approach.

Renovation projects - These costs usually vary on the type of renovation the homeowner wants. Renovating a kitchen is much more expensive than building a fence. You could pay for the renovations out-of-pocket, or take out a loan such as a home equity line of credit.


# Understanding the Mortgage Loans

There are two main types of mortgage loans, and it is important as an aspiring homebuyer to do your homework (no pun intended) in order to determine the type of loan that is right for you.

*Fixed-rate Mortgage Loans* - In this type of loan, the loan’s interest rate remains fixed throughout the life of the loan, and the monthly principal payments do not change. These mortgages are quite common, and the mortgage span usually lasts between 15 and 30 years.

One of the main advantages of this type of loan is that the monthly payments are consistent, making it easier for you to include the payments in your budget. Also, the payment is never affected by an increase in interest rates. Consequently, the main disadvantage of this type of loan is that the payment does not go down if the interest rates decrease. Plus, at the time of financing, these mortgages usually have higher interest rates than adjustable rate mortgages.

*Adjustable-rate mortgage loans* - As the name suggests, the interest rates on these types of loans adjust periodically depending on the type of ARM loan the homebuyer takes.

In traditional ARMs, the interest rate adjusts at a set increment throughout the life of the loan. Therefore, if you take a 1-year ARM, the rate will be fixed for the first 12 months, and adjust every 12 months after that. The initial interest rate of a traditional ARM is usually lower than that of a hybrid ARM, though the rate adjusts more frequently.

In a hybrid ARM, the interest rate is fixed for a certain period, which could be the 3, 5, 7, or 10 years. During this time, the interest rate does not change. After this period, the rate changes depending on the prevailing market conditions.

The advantages of ARMs include:

- Lower initial interest rates compared to fixed-rate mortgages.

- If you know you'll own the home for less than the term of the mortgage, you may end up paying less interest than with a fixed rate mortgage loan.

- It may be easier to qualify for such a loan, as the initial costs are lower.

- Interest rates may drop if the prevailing interest rates decrease.

The disadvantages of this type of loan include:

- Interest rates increase if the prevailing interest rates go up.

- Future increases in interest rates may make your monthly payments more costly.

## Mortgage Loan Options

*Federal Housing Administration Insured Mortgages (FHA)* - This type of mortgage is part of the Department of Housing and Urban Development. Such mortgages allow homebuyers to purchase a home with as little as 3.5% down payment. This makes it easier for first-time homebuyers to save for a new home. These loans are often offered as fixed-rate mortgages. FHA mortgage rates are usually very low and you can refinance without an appraisal. However, FHA mortgage insurance premiums can be pricey.

The mortgage insurance premium is an issuance policy attached to FHA loans with down payments of less than 20%.
FHA mortgage insurance premiums are in two phases -- 1) upfront at closing, and 2) annually in 12 monthly installments. The current upfront MIP fee is 1.75% of the borrowed amount; and, the typical annual MIP fee is 0.85% of the borrowed amount.

*Conventional Mortgages* - These type of loans are not government insured and are not offered by any government program. Such mortgages usually require a down payment of at least 5-percent. This type of loan is very popular given their low rates and flexible guidelines.
*Department of Veterans Affairs Guaranteed Mortgage (VA)* - These mortgages are available to members of the United States Military. Home-buyers who qualify may be able to purchase their home with little to no down payment.

## The Loan Approval Process

The first step involves speaking with a loan officer to determine your financial position and budget to pre-qualify for a loan.

Some of the items you should bring with you:

- Two years' W-2s
- Asset verification such as checking/savings account statements, stocks, bonds, 401k
- Two most recent pay stubs
- Employment data
- Creditor information
- Personal identification
- One-Two years of tax returns

If pre-approved for a loan, you will get a loan estimate of the closing costs to help determine the type of home you can afford. Your pre-approval letter will include a commitment letter from the bank, with the key terms of the loan plus all of the documents needed to finalize the loan.

Your loan officer will select different lenders and you will want to be rate and fee conscious. Don't just look at the interest rate but compare the Annual Percentage Rate (APR). Remember, the higher the APR, the higher the costs.

A higher credit score can determine your credit worthiness. Lenders usually look at a person's credit report to determine how much they can give them, as well as the interest rates to charge them. Before applying for a mortgage loan, check your credit report to make sure there are no errors that may affect your credit rating.

Therefore, the first step is to request a credit report and to make necessary, if any, corrections. This could help you get a mortgage loan at a lower interest rate.

To keep your credit score up, aspiring home buyers should:

- Keep all of your old accounts open, as this increases the total credit available to them, making their total balances appear smaller in proportion.

- Hold off on making larger purchases, such as a car, since having more money in your savings account can show lenders you have a cash reserve, making it less risky for them to lend money.

- Hold off on applying for new credit cards, as this can lower the average age of your account and lower their credit score. Increasing your debts by taking new loans right before applying for a mortgage can also negatively affect your credit.

*What does your credit score mean?*
*Your credit score will range from 300-850 and most scores fall between 600-700. The higher your credit score, the better the change of loan approval and getting a lower interest rate.*

## Working with a Real Estate Agent

Finding a home that meets your exact specifications can be quite difficult, and going to all the various open houses can result in burnout. To save yourself the time and effort, it may be advisable to hire a real estate agent. The seller pays the real estate commission so it's in your best interest to work with a real estate agent early in the process.

Hiring a real estate agent will make house hunting more efficient by helping you find a home within your price range. Plus, a real estate agent works in your best interest to negotiate a fair price and guide you during the closing process. Interview at least three real estate agents and also visit their websites.

Tips to consider when looking for a real estate agent:

- Local market knowledge
- Professional experience and qualifications
- Marketing strategies to find you the best home
- Use of modern technology
- Customer testimonials
- Other home-related services

Some questions you should ask your agent:

- Will you be present during closing?
- Are you a full-time real estate agent?
- How familiar are you with the area where I wish to purchase a home?

If you're looking to sell your current home in order

to purchase a new home, your real estate agent can help you:

- Set a selling price
- List and market your home effectively

## What to look for when buying a home?

Work with your real estate agent to take into consideration what is important to you as a future homeowner including:

- Lifestyle needs
- Work proximity
- Quality of neighborhood schools (Learn more at greatschools.org)
- Distance to restaurants, parks, hospitals and shopping

If you are working with a new home builder, consider the number of years they have been in business, their financial position, and whether they offer you ways to personalize your home. It's always smart to work with a real estate agent even when purchasing a new home.

In addition, think about what type of home you are looking for:

- Single-family home
- Multi-family home
- Condominium
- Townhome
- Co-op

*Bonus Tip: Though it is important to have specific features and amenities in mind, you should be flexible since you could consider adding them later after moving into your home.*

## Purchase and Closing

Once you find the home you are interested in purchasing, you will place a bid for the home. In a hot market, it is not uncommon for a seller to receive multiple offers. In addition to what you can comfortably afford, your offer should take into consideration both the property condition and prices of similar homes in the area.

Keep in mind that a real estate agent can be very valuable in determining if the asking price of the home is fair or too high.

It is typical for a seller to come back with a counteroffer and your real estate agent will work with you to negotiate further. Once your offer is accepted, there are sever-

al steps before closing.

Normally the listing agent (represents the seller) will open escrow and title. You will deliver your earnest money check to the seller's agent who will place it in "escrow." Closing processes vary and even the processes in northern California differ from that of southern California.

Your purchase agreement may include a contingency period, which requires you to complete your due diligence within a certain period of time. This time period can range from 7 to 30 days.

Home inspection - A home inspection by an independent and qualified inspector will immediately be scheduled to find any significant defects in the construction of the home.

Pest inspection - This is separate from the home inspection and will reveal if there are any damages by termites or other organisms.

Appraisal - An appraiser will estimate the home's value based on both the value of comparable properties nearby and the condition of the home.

Loan contingency - Deliver the executed purchase contract along with other financial documents to your loan officer.

Home insurance - The amount varies depending on the lender but normally the coverage should be adequate enough to rebuild the home from the ground up. Compare at least three different carriers' coverages based on price, customer reviews and value.

A typical policy protects against hazards like:

- Fire and lightning
- Smoke damage
- Falling objects
- Damage from the weight of ice and snow
- Theft and vandalism
- Riots
- Explosions

## The Closing Process

1. Application - Your loan officer will assist you in completing an application with the information and needed documents. Rates, loan fees and other associated costs will be provided in a Good Faith Estimate (GFE) and a Truth-in-Lending statement (TIL).

2. Processing - Your financial documents are reviewed by the lender.

3. Underwriting - An underwriter reviews your loan package and determines whether more information is needed. It is

imperative to turn in document requests as soon as possible to avoid delays.

4. Pre-Closing - All approval contingencies are satisfied and title insurance is ordered.

5. Closing - You will sign many loan documents and disclosures. Your lender will fund the loan in exchange for the title of the property. This is when the loan process is officially completed and considered ‘closed.”

A typical closing is between 35-40 days however it is no uncommon to incur delays. Some of the typical issues to cause delays include:

- Low appraisal
- Issues found during inspection
- Debts or mistakes on the credit report
- Required documents not updated
- Marital status changes of the parties involved
- Clouds on title

## Final Walk Through

Before you loan closes, you will complete a final walk-through of the home to confirm the home is in the same condition when you put in the offer. You will want to schedule your walk through before the day of closing and ensure the sellers have not left behind any unwanted items.

Here’s a list of items to check:

- Run water and look under the sinks for leaks
- Flush toilets
- Open and close all doors and windows
- Test heating and air conditioning
- Inspect ceilings, walls and floors
- Test outlets and appliances
- Turn on and off every light fixture

## Congratulations!

You’ve crossed the finish line! After the entire process is complete, you will be given the keys to your home and move whenever you are ready. It is important to keep all your paperwork available and safe at all times.

# Closing Documents to Keep

- Purchase Agreement and addendums
- Requests for Repair and Inspection Reports
- Escrow instructions
- Any completion certifcates
- Home warrany plans
- Loan documents including TIL, Estimated Closing Statement, HUD-1 Settlement, Promissory Note
- Insurance Policy
- Title Policy
- Grant Deed

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