Home Buyer's Guide

Buyers Guide to Understanding Today's Real Estate Market

SUPREME LENDING
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Where do I start?

In today's real estate market, if you are a finance buyer, chances are you will be competing with "cash buyers." Therefore you must put yourself in the strongest possible position so the seller knows you are qualified to purchase the property and can close the transaction on time.

The best way to do this is to get "properly pre-approved" for a mortgage and have a strong offer with a deposit that makes the seller know you are a serious buyer.

Many buyers get pre approved for a specific purchase price without looking at the total monthly payment. Every house has a different payment and different dollar amount to close.

The first question to ask yourself is, "what do I want my monthly payment (principal, interest, taxes, insurance and homeowners association fees if any) to be?"

Step 1- Get Pre-approved

The right approval means less financial risk to you.

What you need to know to secure your contract:

A. Credit

- Know your score and how to improve it
- Review your open accounts and verify your balances, credit is reported once a month so many times your balance will be higher than what you owe which can decrease your score
- Pay balances down below 50% of your credit limit

B. Income

- Your income should never be verbally verified, for your pre approval to be solid your originator should review your income documentation. What you think you make and what an underwriter will say you make is usually different.

C. Assets

- Know what your price range will require for cash to close
- Make sure you have your closing money ready and available. If you are receiving gift money make sure it is in the form of a check or wire.
- All money has to be verified. No Cash

D. What is the right mortgage for me?

Your down payment, credit score and debt ratio will determine if you qualify for:

- **Conventional, FHA or VA**
- **Fixed or adjustable**
- **30 year or 15 year**
- **Rates and fees**

Step 2 - Finding the best rate

When you spend time comparing rates online, you will notice that most websites quote national mortgage rates for a home purchases or refinance.

A true mortgage rate is one that your lender or lender is able to provide you based upon your particular financial situation and needs.

To understand YOUR rate you must first understand how the rate is determined.

There is **"base rate"** and then the **"adjusted rate"**

The Wall Street financial market determines the base rate that lenders can offer to their clients. Then the individuals adjusted rate is determined by risk.

The adjustments to the base rate are as follows:

- **Credit score**
- **Type of property**
- **Occupancy (primary, second home or investment)**
- **Loan size**
- **Loan to value (percentage down)**
- **Lock period (30 – 60 or 90 days)**
- **Area of country / Location of Property**

The best way to shop a rate is to know your risk factors and make sure you are being quoted a fair rate. If you are being quoted a base rate, this is usually a red flag.

Step 3 – Choosing a lender

You will be spending a considerable amount of time with your lender. Therefore, you want to choose someone who listens to you, answers your questions, understand your particular market and above all someone who you trust to get the job done.

Here is what you should expect from your lender:

- **You should be prepared for the loan process, know what to expect and have a timeline**
- **Verify your total cost to close in the form of a Good Faith Estimate**
- **Review and explain your current payment and what future changes may occur to your payment, such as tax adjustments or insurance change etc.**
- **Respond to you in a timely manner**
- **Review all products that are available to you and have you choose the right one that fits your needs.**

Step 4 – Understanding your market

While most savvy buyers are familiar with the difference between a regular sale, a short sale and a bank owned property (Real Estate Owned by the bank – REO), most are not familiar with all the intricacies involved in the purchasing process. As the number of REO and short sale properties continue to dominate the real estate market, it is important for buyers to have a better understanding of how the process works. The following information can help buyers with their decision-making:

A. Private sale

A non-distressed or private sale is typically a more desirable sale. A private homeowner usually responds in a timely manner that tends to allow for faster negotiations and quick closings. The buyer has a better chance of negotiating closing credits to help with closing costs and prepaid items such as the annual insurance premium, escrow account etc. By law a seller must provide a buyer with a seller's disclosure that gives information only a private seller would know.

B. Short Sale

A Short Sale is when a seller sells their home for less than their current mortgage balance and the current mortgage lender agrees to accept the reduced payoff. This typically releases the seller form any judgment of negative equity owed.

Tips for buying a short sale:

- Patience! A short sale can take anywhere from 30 days and as long as year to be approved.
- Have your real estate agent determine a fair market offer to avoid wasted time, If you make a low ball offer be prepared for a counter offer that you can make work
- Inspect the home if possible. Typically a short sale property is sold as is, so why wait 6 months to find out the home needs extensive repairs you are not willing to make or that your lender will not allow.

C. Foreclosure or Bank Owned (REO)

A REO property is property owned by a bank. A bank will take ownership once a home is foreclosed on.

Contrary to what most buyers think, there is very little negotiating room when you buy an REO. Frequently, there are multiple offers on REO properties and finance buyers often compete with cash buyers. Properties are sold in an "as is" condition. Renovation costs should be taken into account when making an offer.

Buyers should be aware that most REO homes have been vacant for sometime and can require substantial repair. Buyers should take into consideration the type of loan they are approved for to make sure the property will qualify.

Not all REO's are in bad shape, as matter of fact Fannie Mae and Freddie Mac properties offer time frames in the beginning weeks of listing the property for only Primary homeowners.

Step 5 – Understanding a Good Faith estimate (GFE)

Your Good Faith estimate is broken down into sections for fees to be easily understood.

There are 3 pages.

The first page shows you the loan amount, interest rate and Monthly Principal and interest payment. Also your total cost.

The second page breaks down the cost disclosed on page 1. There a section A and B. A is broken in to 2 areas and B is brown into 9.

Section A 1. Origination charges, these are the banks fees lumped into one number. This may include Processing, Underwriting, admin and other origination cost.

Section A 2. Will show your interest rate and Credit or charges (points) for your interest rate.

Block A shows total cost

Section B 3. Required services that will we select.
This will include appraisal charges, Mortgage insurance premiums or VA funding fee's. These are cost associated with your loan charged by the bank depending on your loan type.

Section B 4. Title services and lenders title insurance.
These are fees associated with your title company. This will include a breakdown of cost including Settlement fee, lenders portion of the title insurance and other MISC fees. See Title insurance page for further detail.

Section B 5. Owner's title policy is the cost of your title insurance policy that covers you in case of title discrepancies that may appear after your closing date from the previous owners. Depending on the county will determine if the seller or buyer pays. Again see title insurance page for further detail.

Section B 6. Required services that you can shop for.
This would typically be your survey or lien search cost. These are fees that can change.

Section B 7. Government recording fees.
This is a fee to record your deed and doc stamps

Section B 8. Transfer taxes.
Taxes charged by the city and state to close the loan. Florida state cost is .0035 of the loan amount ($350 for Every $100,000) City and county cost are .002 of the loan amount ($200 for every $100,000)

Section B 9. Initial deposit for your escrow account.
This will show a lump sum of your escrow account. The breakdown will show the months the bank requires to begin your escrow account assuring there will be enough to pay your taxes and insurance when due the following year. Every month your escrow will build and the bank will pay the bill upon receipt. Taxes are due November of each year and insurance is due on your loan anniversary date very year.

Section B 10. Daily Interest charges.
Depending on the date you close you will pay interest for the remainder of the month. Your first payment will then be due the following first. For example if closing in January your first payment will be due March 1st.

Section B 11. Homeowners insurance.
This will include Flood, Hazard and wind for the first year of your loan. Your escrow account will cover the following year.
Block B shows total cost

The Third Page has terms, comparisons and a shopping chart to compare your loan estimates.

Step 6 – Research the area

Choosing the right neighborhood or area depends on many factors such as your lifestyle, age, schools, employment, whether you want to be close to transportation, shopping, restaurants and entertainment.

Where you live is a personal decision that you must make. Other factors that you may need to **take into consideration** are **how much house you can afford** and **the type of property you need**.

You may also want to **look at the demographics of the neighborhood, check crime rates and other data** about the area.

A local professional Real Estate agent is the best resource to determine your price point and narrow down your search.

A great tip is to search a city name on the internet and many useful sites will come up with information regarding events and blogs about the community etc.

Step 7 – Getting a Home Inspection

- Buying a new home may be the biggest investment you'll ever make. **Having your new home professionally inspected as early as possible in the buying process can save you thousands of dollars** on items which you may be able to have the seller repair. During the home inspection, the inspector will check the roof, heating/cooling system, structure, plumbing and electrical as well as checking for termites.

- **If you are buying an older home, your insurance company may request a four-point inspection.** A four-point inspection on a home focuses on the heating and air conditioning system, electrical wiring and panels, plumbing and fixtures, and roof.

- **A wind mitigation inspection focuses on building features that reduce damage during high-speed winds.** You may qualify for discounts on your windstorm insurance depending on how many wind resistant features you have on your home.

Step 8 – How to Shop for Homeowner Insurance

SELECTING YOUR AGENT
Your agent's knowledge and experience is crucial in purchasing the right coverage at the right price.

SELECTING YOUR INSURANCE CARRIER
Not all companies offer the same coverage. Many insurance companies have coverage exclusions while others offer extra layers of coverage at an additional cost.

SELECTING YOUR COVERAGE
The purpose of purchasing home insurance is to protect your asset from the various perils that exist; i.e. Hurricanes, water damage, fire, etc. The deductibles set within a policy are key items that must be considered to help avoid surprises if a need for a claim arises. Larger deductibles may provide flexibility in cost for the policy but may result in large out of pocket expense in a time of need

SELECTING YOUR PRICE
Currently, there are many opportunities to reduce the cost of a home insurance policy.

Examples of such opportunities are:

- **Obtaining a Wind Mitigation Inspection**
  Items such as a newer roof and hurricane shutters provide extensive discounts
- **Central alarm system**
  An alarm system monitored by an authorized company can reduce the price of the premium.
- **Flood Insurance**
  If your home requires flood insurance to be purchased, certain carriers provide a multiple policy discount if purchased together.

Step 9 – The Title Company Role and Insurance Coverage

The Role of the Title Company

The title company serves many purposes in a real estate transaction:

1. The title company facilitates the transaction between all parties
2. Work to cure any prior title issues, for instance making sure the chain if title is correct and there are no prior liens unsatisfied.
3. Update payoffs, making sure that all prior mortgages are settled, that there are no unpaid bills like the water or homeowners association dues if any
4. Prepare the closing statement also known as the HUD-1 Statement
5. Pay all recording fees, taxes and file new deed transferring ownership from one party to the other
6. Issue title insurance policy to new homeowner and lender if any

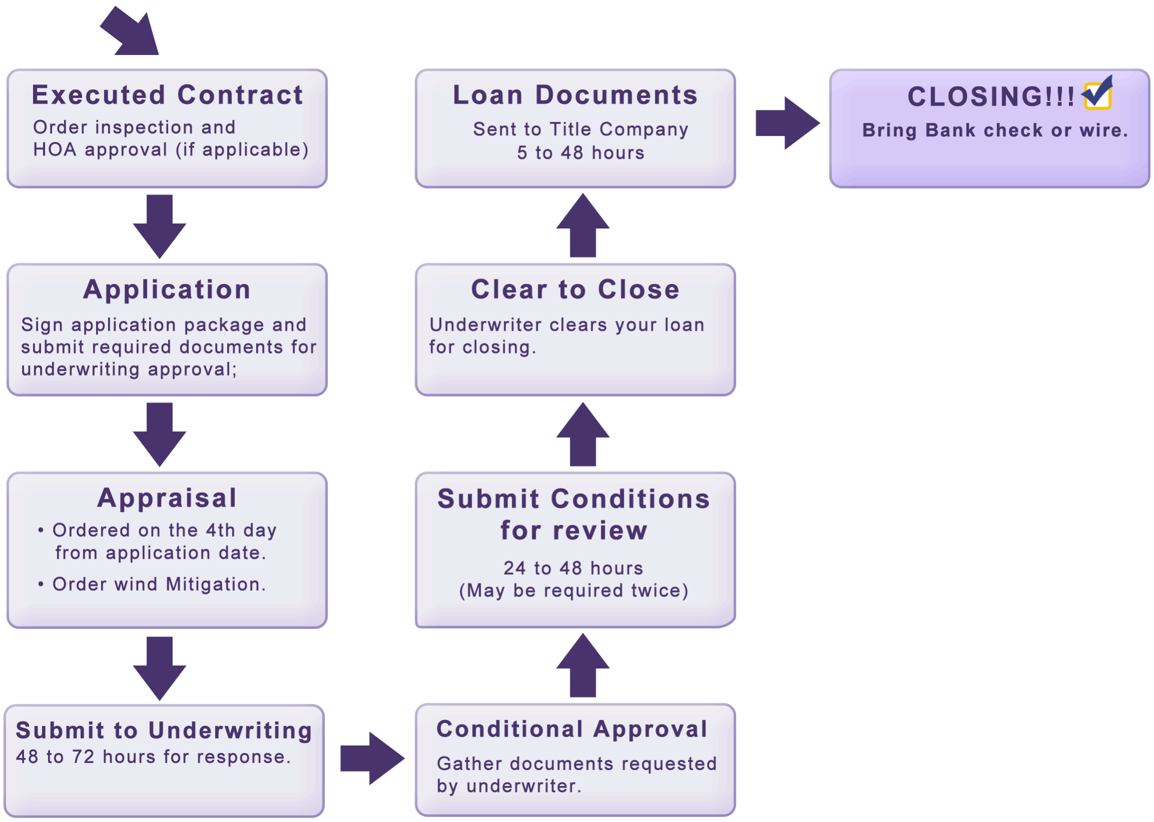
What is Title Insurance?
Title insurance is used by homebuyers and lenders for protection against back taxes, undisclosed liens, legal judgments, forgeries, fraud and a host of other potential legal/financial problems that can arise when purchasing or refinancing property.

Do I need Title Insurance?
All though not required other than by lenders, Title Insurance is a means of protecting yourself from financial loss in the event that problems develop regarding the rights to ownership of your property. There may be hidden title defects that even the most careful title search will not reveal. In addition to protect you from financial loss, title insurance pays the cost of defending against any covered claim.

How much does title insurance cost?
The one-time premium is directly related to the value of your home and is regulated by the state that the property is in. It is a one-time only expense, paid when you purchase your home. Yet it continues to provide complete coverage for as long as you, or your heirs, own the property.

Information provided by Assure America
At Assure America Title Company our goal is to provide you with the best customers service throughout the entire process. You will be provided your own personal closing coordinator so that you have one point of contact, making sure you are always have status on closing.

Home Purchase Process



THE DO'S

- **Research the market where you want to buy.** Begin your search by arming yourself with information. Stick with the well known, long-time real estate information Web sites and you'll learn more than you need to know.
- **Check your credit standing.** You need to know your credit standing. You may need to improve your credit score. You may need to adjust your habits if your credit is less than sterling. And you need to take those steps before seeking a loan
- **Get a mortgage pre-approval or commitment.** An early pre approval on a loan will put you in a good position when you find your dream home. It will also help you shop within your budget.
- **Line up a team of professionals.** You may need a real estate agent, attorney, mortgage lender, home inspector and others to be your professional eyes during your home search.
- **Buy for your lifestyle.** Your first home may not be your last, so try to anticipate how long you'll live in your home and buy based on plans for the duration. Raising kids, starting a business, taking on a new job, housing Grandma could all impact the size or type of home you need first.
- **List your priorities.** Separate your "wants" from your "needs" so you know where you can compromise to stay on budget.

THE DONT'S

- **Get taken by the first house or neighborhood you see**. Keep an open mind and spend sufficient time finding the right fit in a house and neighborhood for your needs.
- **Charge any new items on your credit cards and DO NOT max out a credit card if you need to put something on it.**
- **Buy or lease any new major purchases –** cars, furniture, appliances etc.
- **Buy more than you can afford.** It's better to live with a comfortable mortgage on a smaller home than to struggle every month paying a mortgage on a house with more room than you really need. Your down payment, closing costs, monthly expenses and taxes must all be within your income and savings range.
- **Think of your home like a stock portfolio**. Homes appreciate and depreciate in cycles that often aren't very predictable.
- **Try to time the market**. Pinpointing the bottom of the market almost always happens after the market has started to turn up. Focus on personal lifestyle needs, not market trends, in terms of timing your home buy.

Terms You Should Know

Adjustable Rate Mortgage (ARM)
Any mortgage with a rate that adjusts during the loan period. An example is a 5-year ARM, which means the rate is fixed for the first five years and then adjusts after that period for the remaining loan term.

Amortization
When the principal is scheduled to be paid in full over the term of the loan. Additional principal payments reduce the term of the loan not the payment

Annual Percentage Rate (APR)
Takes into consideration fees or costs associated with a loan that are shown to you on the Good Faith Estimate produced by a lending institution during the mortgage application process and expresses them to you as the cost of credit in relation to the amount borrowed. This mathematical calculation is shown to you at the beginning of a loan process so that you will be able to use it to shop for a mortgage by comparing rates and costs.

Debt to Income Ratio (DTI)
- is determined by taking your monthly debt divided by your income. For a mortgage transaction you must qualify with two debt ratios the "front end" which is the ratio of housing expense to income and the "back end" which is your total debt ratio.

Fixed Rate Mortgage
The mortgage rate is fixed for the entire loan term. Example is a 30 year fixed rate mortgage. The interest rate stays the same during the entire loan term.

Private Mortgage Insurance (PMI)
Insurance that the borrower takes out to protect the lender in case the borrower defaults on the loan. This is usually required on mortgages with less than a 20% down payment.

Monthly Insurance premium (MIP)
Insurance paid on government insured loans to subsidize the risk of the loan.

Rate Lock-In
A written commitment from the lender which guarantees a fixed interest rate on the borrower's loan for either 30, 60 or 90 days prior to the closing.