

# HOME BUYING BASICS

 COLDWELL BANKER | SCHMIDT REALTORS



# THE PROCESS

Below is an outline of the steps you'll be taking as part of becoming a homeowner.

- How much can you afford?
- Getting pre-approved for a loan
- Deciding on a lender
- Fine tuning your budget
- Begin searching for a home
- Making an offer
- Your offer is accepted
- The closing



# GETTING STARTED

You've decided to purchase a home! Buying a home is an exciting and smart investment. Homeownership brings a sense of security and the freedom of having your own space. Financially, it can provide a tax shelter and the opportunity to build equity.

This guide is designed to walk you through the process of buying a home so you are prepared to act quickly when you find the perfect one. As you work through the home buying process, you'll find that your professional real estate agent is a valuable resource, and you can feel confident your search for a new home will be successful.

Your agent will help you find the home that fits your lifestyle and your budget.



# HOW MUCH CAN YOU AFFORD?

Before you begin searching for a new home, you need to determine a realistic budget that takes into consideration your current debt (credit cards, loans, etc.) as well as homeowner expenses such as taxes, insurance, utilities and maintenance.





## GETTING PRE-APPROVED

A lender will only allow you to borrow money if they are sure your credit is strong and if they are confident you can pay them back.

To determine if you're a good candidate for a loan, they look at your credit score and study your financial history, income, federal tax returns and long-term debt such as credit cards, auto loans, child support, etc. If your credit looks good, you have an excellent chance of obtaining a mortgage.

Getting pre-approved for a mortgage is an important first step when buying a home.

Your agent will help you find the home that fits your lifestyle and your budget.



# ESTABLISHING GOOD CREDIT

At one time or another, many people blemish their credit report. If your credit report is tarnished, there are steps you can take to repair the damage.

First, examine the credit report thoroughly and make sure it's accurate. If there are mistakes on the report, contact the credit reporting agency and ask them to remove the mistakes immediately.

**Here are some other helpful tips:**

- Pay your bills on time and in full
- Limit how many credit cards you have
- Keep separate checking and savings accounts
- Stay at your current job for a few years; the longer the better.

Be sure your credit report is accurate and take steps to remove any mistakes immediately.

# DECIDE ON A MORTGAGE

After you are pre-approved for a mortgage, it's time to decide on a mortgage type. There are many types of mortgages, and choosing the right one for you is an important decision. The two most common mortgages are a Fixed Rate Mortgage and an Adjustable Rate Mortgage (ARM). If you are interested in exploring additional mortgage programs, talk to a local mortgage professional.

## FIXED RATE MORTGAGE:

The interest rate remains the same for the entire term of the loan -- usually 15 to 30 years -- meaning the principal and interest portions of your loan will never change. With a Fixed Rate Mortgage, your payments are stable and predictable; however, interest rates tend to be higher than with an adjustable rate.

## ADJUSTABLE RATE MORTGAGE:

The interest rate is linked to the financial index so the rate fluctuates with changes in market conditions. With an Adjustable Rate Mortgage, your payments will vary over the life of the loan, but it usually includes a lifetime cap on the interest rate increase in order to protect the borrower. The advantage of an Adjustable Rate Mortgage is that it offers lower initial payments, making it easier for buyers to qualify.

When you apply for a mortgage, have the following items available for each applicant:

- Two most recent pay stubs
- Summary of current debt (credit cards, loans, child support, etc.)
- W-2s for the last two years
- Federal tax returns for the last two years
- Last two months' bank statements



# FINE TUNE YOUR BUDGET

Now it's time to calculate your budget in more detail. To help you, here are three major costs associated with purchasing a property.

Work with your agent to determine all costs associated with purchasing a home.

- 1. Down Payment:** This is how much you pay upfront. The larger the down payment, the smaller your mortgage. The standard down payment is 20% of the cost of the home, but other programs are available, especially for first-time homebuyers. Your real estate agent can help you determine which program is the best fit for you.
- 2. Monthly Mortgage Costs:** Include the mortgage, homeowner's insurance, mortgage insurance (if applicable), property taxes and escrow deposits, which can be combined with the monthly mortgage payment.
- 3. Closing Costs:** Include appraisals, title insurance, inspections, attorneys, title transfers and additional fees.

To estimate fees and other closing costs, fill out the Estimated Closing Costs Worksheet on the next page. Your agent will help you estimate these costs.





# ESTIMATED CLOSING COSTS WORKSHEET

Fill out this form with your real estate agent.

## LOAN ITEMS

Purchase Price \$ \_\_\_\_\_

Down Payment \$ \_\_\_\_\_

Amount Financed \$ \_\_\_\_\_

## PROPERTY ADDRESS

\_\_\_\_\_

\_\_\_\_\_

## LOAN & GENERAL CLOSING FEES

Loan Origination Fee \$ \_\_\_\_\_

Appraisal Fee \$ \_\_\_\_\_

Credit Report \$ \_\_\_\_\_

Additional Loan Fees \$ \_\_\_\_\_

(i.e. wiring fee)

Loan Interest \$ \_\_\_\_\_

Property Tax \$ \_\_\_\_\_

Insurance (i.e. mortgage) \$ \_\_\_\_\_

Additional Prepaid Fees \$ \_\_\_\_\_

Closing Fee \$ \_\_\_\_\_

Recording Fee \$ \_\_\_\_\_

Title Insurance \$ \_\_\_\_\_

Title Search \$ \_\_\_\_\_

Survey \$ \_\_\_\_\_

Inspection Fee \$ \_\_\_\_\_

Home Warranty \$ \_\_\_\_\_

Additional Title, Closing & Recording Fees \$ \_\_\_\_\_

Sale Price \$ \_\_\_\_\_

Down Payment \$ \_\_\_\_\_

Amount Financed \$ \_\_\_\_\_

Interest Rate \_\_\_\_\_

Term (in years) \_\_\_\_\_

## ESTIMATED MORTGAGE PAYMENT

Loan Origination Fee \$ \_\_\_\_\_

Appraisal Fee \$ \_\_\_\_\_

Credit Report \$ \_\_\_\_\_

Additional Loan Fees \$ \_\_\_\_\_

HOA Fees \$ \_\_\_\_\_

Note: This estimate was prepared to assist the buyer in computing costs. Lenders and other related services will vary in their charges; therefore, these figures are not and cannot be guaranteed by your local real estate office, or by any real estate agent.

**TOTAL LOAN & GENERAL CLOSING FEES**

\$ \_\_\_\_\_

## Your Final Budget

Now you're ready to calculate your final budget. Add together all your available money (monthly salary and other income) and then subtract all the costs from the above worksheet. This is your estimated budget. Now you're ready to begin the search for your new home.

# THE FUN BEGINS

Your financial papers are in order, you've been pre-approved for a mortgage, and you've calculated your budget, now it's time to start searching for a new home!

One of the many advantages of working with a real estate agent is having access to multiple listings. Your agent can provide a detailed description of any property that interests you.

The more your agent knows about what you're looking for, the easier it will be to find the perfect match. Use the worksheet on Page 9 to prioritize your home features and then share this information with your agent.

Discuss with your agent any specific features you are looking for in a home.



# HOME FEATURES WORKSHEET

Fill out this form and discuss with your real estate agent. The more your real estate agent knows about what you want, the easier it will be for them to help you find the right home. Take time to thoroughly complete the worksheet below and then discuss this with your agent.

**PRICE**

\$ \_\_\_\_\_

**FEATURES**

**SPECIFY YOUR PREFERENCES**

**IMPORTANCE (CIRCLE)**

**EXTERIOR**

View	_____	1	2	3	4	5
Architectural Style	_____	1	2	3	4	5
Swimming Pool	_____	1	2	3	4	5
Deck/Patio	_____	1	2	3	4	5
Garage	_____	1	2	3	4	5
Yard	_____	1	2	3	4	5
Maintenance Free	_____	1	2	3	4	5

Other Property Comments: \_\_\_\_\_

**INTERIOR**

Floor Plan	_____	1	2	3	4	5
Bedrooms	_____	1	2	3	4	5
Bathrooms	_____	1	2	3	4	5
Living Room	_____	1	2	3	4	5
Family Room	_____	1	2	3	4	5
Bonus/Game Room	_____	1	2	3	4	5
Dining Room	_____	1	2	3	4	5
Kitchen	_____	1	2	3	4	5
Basement	_____	1	2	3	4	5

Other Property Comments: \_\_\_\_\_

**COMMUNITY/LOCATION**

Convenience to Employment	_____	1	2	3	4	5
Convenience to Transportation	_____	1	2	3	4	5
Convenience to Shopping	_____	1	2	3	4	5
Convenience to Schools	_____	1	2	3	4	5
Convenience to Daycare	_____	1	2	3	4	5
Nearby Recreational Facilities	_____	1	2	3	4	5
Near Police & Fire Protection	_____	1	2	3	4	5

Other Property Comments: \_\_\_\_\_

# MAKE AN OFFER

You've found the perfect home! Now it's time to make an offer. Your real estate agent will help you decide on an offer based on your pre-approved loan, current market conditions and competition.

After you've determined an offer amount, your agent will present it to the seller on your behalf. Negotiations may follow between you and the seller as you work toward an agreement. This is normal, and your agent can support you through the process objectively and professionally.





## **YOUR OFFER IS ACCEPTED!**

Now it's time to finalize your loan and have inspections completed.

Based on the inspection results, repairs may need to be completed. The property is appraised, the title analyzed, the title insurance commitment is issued and the property is surveyed if necessary. At this point you need to secure homeowner's insurance.



# THE CLOSING

This is the day you've been waiting for! If closing is a new experience, try not to worry, your real estate agent will guide you through it.

Bring identification, documents requested by the title company, your lender and agent and the closing money owed. All fees and transaction charges will be disclosed as separate line items within the statement. Check with the title company to determine how they want fees to be paid (i.e. cashier's check, wire transfer).

During closing, the sale transaction is finalized. The Disclosure Statement\* is released, money is exchanged, all paperwork and agreements are signed, and the title of property is transferred--the home is now yours!

## *Congratulations!*

\*Often in real estate transactions, the seller will present a Disclosure State. The statement includes the age and condition of the property and a list of any additional features (pool, garage, etc.) The Disclosure Statement protects the seller against liability from a buyer who charges that they were not informed of a particular condition, as well as providing the buyer with an extensive review of the property so that they can make a full-informed decision before they purchase the house.

## FREQUENTLY ASKED QUESTIONS

**What types of mortgage programs are offered?** There are many types of mortgages, and choosing the right one for you is an important decision. Below lists several programs, but talk to a local mortgage professional to see which program is right for you.

- 15, 20, or 30-year Fixed Rate loans
- Adjustable Rate Mortgage (ARM)
- New Construction financing
- VA and FHA loans

**How long does a mortgage application take to process?** It typically takes 30 to 45 days to process an application. The time depends on how quickly the lender can get an appraisal of the property, review your financial statements, employment and credit information.

**What could delay my loan approval?** Delays could result if the lender discovers credit problems or if your employment and/or financial status changes between the time you submitted an application and the final loan approval. There may also be a delay if the home you selected appraised for less than the agreed purchase price.

**What's included in my house payment?** Principal and interest on your loan. Depending on the terms of your loan, the payment may also include homeowner's insurance, mortgage insurance and property taxes.

**Can I pay those other things separately?** With most loans you can pay taxes and insurance separately if you borrowed no more than 80 percent of the purchase price or appraised value of your home. Check with your lender to be sure.

**What do the closing costs include?** Closing costs cover processing and administration of your loan. You may also have to prepay interest charges to cover the partial month in which you close and deposit money into an escrow account for property taxes, homeowner's and mortgage insurance.






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**(616) 459-0400** | 2168 Wealthy Street, Grand Rapids, MI 49506

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