

# Buyer's Advantage Packet



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## **Introduction**

Buying a home is one of the biggest financial investments you may ever make. While it is a major commitment and responsibility, it can also be a thrilling experience and a very exciting time in your life. With that said, I would like to congratulate you on your decision to buy a home! It is always a privilege to hand the homebuyers the keys to their new home and to be there for that first moment of celebrating ownership!

Buying a home can sometimes seem like a daunting process, but I want to assure you that my goal is to make that process as easy, carefree and rewarding as possible! This Home Buying Guide was put together with that focus in mind. It will inform you of what to expect throughout the home buying process. It will also tell you what others involved in the transaction expect from you as the buyer. You'll find many suggestions to help you at each step of the purchasing process to become an educated buyer so you may make informed decisions.

You may find this booklet most helpful if you view it as a "tool" you can use with each step. Carry it with you so that it is quickly at your fingertips should you need to refer to something. You are encouraged to use the blank pages at the back of this Guide Book—or to maintain a separate notebook—for jotting down specific questions and notations as they come up. Carry your notebook to each home that you view to make notes that you can refer to again and again.

Please review all the information presented here carefully, and don't be afraid to ask questions about anything you don't understand. Although the information is covered as thoroughly as possible, every transaction is unique. You may find that you have concerns or questions beyond the information presented in this booklet. That's why I'm here—to assist you throughout the process, to answer your questions, and to help you find the home you desire!

As you embark on your mission of finding the "perfect home," remember that I will be with you every step of the way—I'm on your team!

### **I. SHOULD YOU GO IT ALONE (or) USE A REALTOR®**

You want to work with a **REALTOR®** *who has the interests of the Buyer in mind – YOUR interests*. The Listing Agent, on the other hand, has the interests of the seller in mind. When you are driving around and see a For Sale sign in the yard, the agent listed on the sign is the **Listing Real Estate Licensee for the seller – NOT YOUR REALTOR®!** Of course they'll jump at the chance to show you the property and write a contract – exactly what the seller hired them to do. You need your own REALTOR® who can look out for you and negotiate for you.

Following is the results of you previewing a home *with the Listing Real Estate Licensee* and subsequently making an offer on that house: The Listing Real Estate Licensee CANNOT offer you any advice that would be to the Seller's disadvantage; nor could they give advice to the Seller that would be to your disadvantage. The Real Estate Licensee that represents both sides of the transaction becomes merely a facilitator of the "deal". However, if you work with your own REALTOR®, the following is true:

Your REALTOR® can now advocate on your behalf including giving you advice that would work to your advantage.

Your REALTOR® is more likely to show you a full array of homes available that meet your criteria – not just the homes they have listed.

### **My Goal Is To Give You the Best Service Possible!**

I will arrange for us to preview any homes you may be interested in! If you are driving around and see For Sale By Owner or For Sale by an Real Estate Licensee, simply contact me and I will make the arrangements to show you the property. I will also gather any information that is available on the property to help you in making your decision. I can provide the tax records, selling price of any similar homes in the neighborhood, community information and much more!

**If you preview properties on your own, it is then too late to bring in your own representative – unless it's an open house and you let the Real Estate Licensee at the property know you are already working exclusively with a REALTOR®.**

In addition to previewing properties, I am an excellent source of referrals and other information. I have a broad network of real estate professionals I can refer you to including lenders, inspectors, contractors, movers, landscapers and home designers.

## **II. FINANCES FIRST!**

Your initial impression may be that we have incorrectly placed the financing segment too early in the process. Actually, there's a good reason: The buying experience usually goes smoother if financing has already been secured before you begin searching for your home. In addition, the way you finance will directly affect the properties that are qualified for your consideration. So, what are the types of financing?

1. **CASH** – Cash buyers can purchase any property that appeals to them. They must, however, be able to show that they have the funds available – called **Proof-of-Funds**. Proof of Funds must include the financial institute's name where the funds are available (or funds Management Company), must be dated within 30 days of the offer date, and show at least the total amount for the purchase price plus closing costs are available. If the funds are in a CD, Retirement Fund or other source they **MUST BE ABLE TO BE CONVERTED TO LIQUID FUNDS (CASH) BEFORE THE CLOSING DATE.**
2. **LOANS (MORTGAGES)** – Lenders can qualify buyers over the phone with minimum information about their income and debts. They will do a credit check and their approval will be conditional on the buyer producing documentation to prove their financial information (for example: bank statements and pay stubs, income tax returns, etc). They will also pull your credit report. Loan

approval criteria changes constantly, is lender specific. The most popular loans are **Conventional, FHA, VA and USDA**. They are briefly explained below.

- a. **CONVENTIONAL LOAN** – Requires 20 percent (20%) of the purchase price as down payment. You need to have cash for the down payment AND pre-paid inspections.
- b. **FHA LOAN** – FHA Loans are loans secured by the FHA (Federal Housing Administration). They currently require three and one-half percent (3.5%) down payment, allow Seller's to contribute up to 6% toward the buyer's closing costs and loan fees.

Homes must qualify – pass an FHA Home inspection. The basics to pass inspection are:

- a) The heating/cooling systems must work
- b) The electrical systems must work
- c) All plumbing must work
- d) The property must have flooring
- e) The roof must have at least 5 years life left on it
- f) There can be no evidence of wood rot or wood destroying organisms.

There are different types of FHA loans to cover some repairs, but they are very strict about the repair time frame and who does the repairs. If you are considering an FHA loan, be sure the lender explains the pros and cons and costs over other types of loans.

- c. **VA LOAN** – VA Loans are available to families with military standing and are based on credits received. Some are zero percent down. Like FHA, VA loans need to pass a property inspection that can be held to stricter standards than FHA. If you are considering a VA loan, make sure the lender explains the pros and cons and costs over other types of loans.
- d. **USDA** - These loans are based on where the property is located - in rural areas. The boundaries change as the Census figures change – because Census figures determine whether areas are classified as rural. To find out if a property falls within the current USDA boundary go to [www.usda.gov](http://www.usda.gov). Then *Select Rural and Community Development for details*.

Obtaining loan approval is the very first step is ensuring that you are in an optimum buying position. This entails a careful review of your financial situation. Think of it as a means of pre-qualifying yourself. With all loan approvals, the lender will issue a Pre-Qualification letter stating the type of loan, conditions of the loan approval and amount they are willing to lend. *These three factors will determine the properties that qualify.*

Most homebuyers find that they need to finance at least part of their home purchase. So, in many respects, owning your dream home hinges on your ability to get the financing you need, *in the price range you can afford*. Even though a lender may be willing to lend you a certain amount of money based on your credit-worthiness and income- to-debt ratios, this does not mean that you should borrow that amount.

The information provided in this section is just a starting point. The best person to discuss financing with is a lender, or their representative.

### **DOWN PAYMENT ASSISTANCE**

Down Payment Assistance programs are designed for low-middle income families who must qualify for the specific program they want to utilize. The programs contribute money toward the down payment to purchase a home; however, the buyer must still qualify for a mortgage and in most cases will still be required to have some funds to contribute toward expenses related to the purchase. You must have reasonable expectations – if you have no money at all, you cannot expect to buy a home. Following is information and links are provided courtesy of **Lindsey Stansbury M.B.A. & REALTOR® and EXIT Realty Central** to help you locate the down payment assistance program that best fits your needs and eligibility. The information and availability of funds changes from time to time. It is important that you contact the source of the assistance directly to get the most up-to-date, accurate information.

### **Brief Descriptions**

**The S.H.I.P (State Housing Initiative Partnership) Program** - The State of Florida has developed several proactive initiatives to encourage the provision of affordable housing at the local level. One such initiative is the State Housing Initiatives Partnership (SHIP) Program, which was created by the William E. Sadowski Affordable Housing Act of 1992. The act establishes a dedicated revenue source to be used by local governments and municipalities to create affordable housing opportunities.

**The Florida Housing Bond Program** - is another excellent option available for Buyer who live in Orange, Seminole, Lake and Osceola Counties. The program is designed for First-Time Homebuyers (can't have owned a home within the last 3 years). Assistance amount is up to \$7,500.00 which can be used for Down Payment and/or Closing Costs. There is a maximum household income limit, but it is quite generous. You must have a minimum credit score of 640 and can only use the funds for Existing Homes, New Construction Homes, Townhomes, and Condo purchases. Please click the link below for more information.

**The NSP (The Neighborhood Stabilization Program )** - Established for the purpose of stabilizing communities that have suffered from foreclosures and abandonment.

**USDA (United States Department of Agriculture)** - The U.S. Department of Agriculture (USDA) offers home loans in order to assist low- to middle-income individuals and families to purchase housing in certain rural areas. To determine your eligibility, the property and your income must meet certain requirements.

## **County Sponsored Down Payment Assistance Programs**

### **Lake County (S.H.I.P.)**

[http://www.lakecountyfl.gov/departments/community\\_services/housing\\_services/home\\_ownership\\_assistance.aspx](http://www.lakecountyfl.gov/departments/community_services/housing_services/home_ownership_assistance.aspx)

### **Osceola County (S.H.I.P.)**

[http://www.osceola.org/housing/131-4663-0/ship\\_program.cfm](http://www.osceola.org/housing/131-4663-0/ship_program.cfm)

### **Orange County (HANDS)**

<http://www.cflhands.org/index.php>

### **Polk County (S.H.I.P. and NSP)**

[http://www.polk-county.net/subpage.aspx?menu\\_id=252&nav=svc&id=8544](http://www.polk-county.net/subpage.aspx?menu_id=252&nav=svc&id=8544)

### **Seminole County (S.H.I.P.)**

<http://www.seminolecountyfl.gov/comsrvs/housing/ship.aspx>

### **Volusia County**

[http://volusia.org/community\\_assistance/housing.htm](http://volusia.org/community_assistance/housing.htm)

## **Statewide Down-payment Assistance Programs**

### **Florida Bond Program**

[http://apps.floridahousing.org/StandAlone/FHFC\\_ECM/ContentPage.aspx?PAGE=0045](http://apps.floridahousing.org/StandAlone/FHFC_ECM/ContentPage.aspx?PAGE=0045)

### **Homeowner Assistance for Moderate Income Loan (HAMI)**

<https://www.flrules.org/gateway/chapterhome.asp?chapter=67-51>

### **Home Ownership Pool Program (HOP)**

[http://apps.floridahousing.org/StandAlone/FHFC\\_ECM/AppPage\\_HOPHomePage.aspx](http://apps.floridahousing.org/StandAlone/FHFC_ECM/AppPage_HOPHomePage.aspx)

### **USDA (Geographic Boundaries)**

<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

## **Localized Down-payment Assistance Programs**

### **City of Orlando**

<http://www.cityoforlando.net/housing/dpa/down%20payment.htm>

## **Your Credit Report**

A very basic—and yet extremely important—factor in your ability to get a mortgage is your credit rating. It is not a secret that the best interest rates, as well as the most flexible loan terms, are available only to those with the strongest credit scores. Your credit history is one of the principal measures used by a lender to determine your interest rate.

### **Interest is the cost of borrowing money.**

*If you are perceived as a high-risk, interest rates will be higher.*

*If you are perceived as a low-risk, interest rates will be lower.*

Not only will your monthly mortgage payment depend on your interest rate, but the amount you qualify to borrow will be affected by it as well. A higher interest rate translates into a higher payment and may reduce the loan amount for which you can qualify. You should be aware of what information the credit reporting agencies have regarding your financial situation by obtaining and reviewing copies of your credit report from the three main credit reporting agencies.

*Even if you are not planning to purchase a home, you may want to consider obtaining and reviewing your credit reports on an annual basis to make sure the information reported is accurate, and to catch any discrepancies that could damage your credit.*

By making this task one of the initial steps in your house-hunting venture, you may save yourself from unnecessary delays later in the purchasing process.

**Credit Reporting Agencies.** There are three major credit-reporting agencies: Equifax, Experian (formerly TRW), and Trans Union. Rather than contacting only one of them, I strongly suggest that you request a credit report from all three. Since not all creditors report to all three agencies, it's not uncommon to find different information reported on each one. However, your goal in ordering all three credit reports is to make sure that all of the information stated on each report is accurate and correct. You can request your credit report from these companies for a nominal fee. An annual report is free upon request for residents of Colorado, Georgia, Massachusetts, Maryland, New Jersey, and Vermont. Additionally, you may obtain a free personal credit report if you have been denied credit within the past 60 days.

## **Credit Bureaus:**

### **Equifax**

1-800-997-2493.

Equifax Information Service Center

P.O. Box 740241, Atlanta, GA 30374-0241

You can also order your credit report from a secure section of the Equifax website at <http://www.equifax.com>.

### **Experian**

1-888-397-3742

Experian National Consumer Assistance Center

P.O. Box 2104, Allen, TX 75013-2104

You can print a credit report order form at <http://www.experian.com>.

### **Trans Union**

1-800-888-4213

Trans Union Corporation, Consumer Disclosure Center

P.O. Box 390, Springfield, PA 19064-0390

You can order a credit report online from Trans Union's website at <http://www.transunion.com>.

## **Fill in Your Credit Score From Each Agency**

|             |       |
|-------------|-------|
| Equifax     | _____ |
| Experian    | _____ |
| Trans Union | _____ |

## **Write Down any Problems You Know That Need to be Corrected**

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## **How Much Home Can You Buy?**

Although it is early on in your plans to purchase, it is likely that you have wondered how much home you will be able to buy. **The best way to determine your purchasing power is to speak with a lender.** However, there are several rules of thumb that will give you an approximate idea of what you will be able to spend.

**The first rule states that you can afford a home with a price tag that is 2.5 times your annual salary.**

*For example, if your annual salary is \$50,000, applying this formula would mean that you can probably shop for a house with a price up to \$125,000*

**The second rule says that you should be able to use 30% of your gross monthly income (before taxes and deductions) for a house payment.**

*For example, assume that your gross monthly income is \$4,000. Using this formula as a guide, you may be able to comfortably afford a monthly payment of \$1,200 ( $\$4,000 \times .30 = \$1200$ )*

### **Funding Sources**

Below is a list of possible funding sources:

- Savings Account
- Proceeds from the sale of a house you currently own
- Life Insurance
- Stocks and Bonds
- Bank Loans (**Mortgages**)
- Company Profit Sharing or Savings
- Retirement Savings Plan (401k)

Some lenders may also require mortgage insurance when the down payment is less than 20% of the purchase price. When you consider these added expenses, you'll soon realize the term "affordability" means more than just the price of the house itself.

### **Upfront Fees and Expenses**

Most homebuyers understand the concept of the down payment, but that is not the only upfront expense when purchasing a home. In addition to the down payment, money must be allotted for costs associated with the loan, which can range from 3% to 7% depending upon your lender's closing costs. As the name implies, closing costs are paid at the time you close the transaction, otherwise known as settlement. Be sure to ask your lender for a "draft" or "good faith estimate" or closing statement showing these costs. Then compare fees between lenders. There are also 'hidden' costs that apply to moving in general. For instance, you may need to purchase appliances, make deposits for turning on utilities, buy property insurance and pay home-owners association fees if applicable.

## **Check List of Information for the Loan Process**

Your specific lender will tell you exactly what documentation is required and the time period the documentation must cover. In short, provide everything you have to **document your INCOME and EXPENSES**.

**For all borrowers, co-borrowers or co-signors (where applicable), the following are needed:**

- ☐ **W2 Forms** from the previous two (or three) years
- ☐ **Pay Stubs** from the most recent two months
- ☐ **Employment History** - Include name and address of employer(s) for the last two years, dates of employment, and income. Provide explanation of recent gaps in employment, if one month or longer
- ☐ **Social Security Card**
- ☐ **Bank Statements** for checking & savings accounts from the past three months. Include names, addresses, account numbers and balances of depository institutions (banks, credit unions, and savings banks). **All pages of all statements are needed, even if blank.** Note: Any unusual activity will need to be explained and documented (e.g. large deposits/withdrawals).
- ☐ **Credit Information** for each open credit card account. Provide the creditor's name and address, the account number, monthly payment amount, and current balance. Include letter of explanation for any credit problems
- ☐ **Tax Returns** - Provide previous two years' personal Federal Income Tax returns with all schedules if You are self-employed; employed in a family business; a tradesman; receiving all or a large part of income from bonus, commission, partnership, or trust income; own rental property; or have income from an otherwise non-verifiable source, such as corporate ownership, installment sales, or tips.
- ☐ **Stocks, Bonds & Other Investment Accounts**. If these are being used for your house purchase, you Must supply the name and address of broker and previous three months' statements or copies of the stock certificates with list of serial numbers and issue dates may be acceptable for verifying bonds. All pages of all statements are needed, even if blank
- ☐ **IRA/Retirement Plan**. Approximate value of vested interest and copy of most recent statement
- ☐ **Life Insurance Policies** - Name of insurance company, policy number, face amount, and approximate cash value of each policy
- ☐ **Automobiles Owned** - Make and year of each automobile owned and current market value. (Evidence

of clear title may be required if owned free and clear)

- **Gift Letters**. If part of your down payment or closing costs is from a gift, a signed letter is needed from The donor to verify that the borrower is not required to repay the funds. Your lender may give you a copy of a form letter that you can use. Always talk to your lender prior to the movement of gift funds.
- **Other Income** - Documentation of income received, if such income is used to qualify you. Examples of other income may include rental income, interest, child support or dividend income. Your lender will give you the specifics to qualify income other than salary.
- **Other Expense Obligations** - Documentation of any obligations you have that impact on your income such as child support/alimony you are required to pay, loans that you are the co-signer or co-borrower, student loans, defaulted to name a few. Your lender will go over expenses that affect your loan in detail.

### **It Is Extremely Important that You Disclose All Sources of Income and Debt to Avoid Mortgage Fraud.**

I will provide the following once you are under contract:

- Copy of purchase contract and all addenda signed by the buyer and seller
- Property information sheet, or Multiple Listing Service (MLS) sheet

### **Interviewing the Lender**

Although lenders have many questions and sometimes even stringent guidelines that you must conform to, do not forget that you too have the option of “interviewing” your lenders to make sure they meet your needs as well. Here are some sample questions that you can and should ask a prospective lender. Your lender can explain any terms you do not understand

- Are both fixed-rate and adjustable rate mortgages offered? What are the advantages/disadvantages of each?
- What is the current interest rate for the type of loan you qualify for?
- Can you “lock-in” the current interest rate? When should/could you do this? When does the lock-in expire?
- Is it possible to get an extension on the lock-in if necessary, and what is the fee for this?
- For variable rate mortgages
  - How often can the interest rate be adjusted on a variable rate loan?
  - Is there a maximum limit on each rate change?
  - How often will the monthly payment be adjusted?
  - Is there a cap on payment adjustments?
  - Is there a fee for adjustments?
- Are there “points”? (explain what they are)
- What are the other fees the lender charges you in conjunction with my loan? Are any “negotiable”?
- Can the term of the loan be extended? What is the financial impact to you?

- Is there a pre-payment penalty if you pay your mortgage off early?
- What is the “grace” period on monthly payments? What effect does it have on your credit history?
- How late can a monthly payment be made before a late charge is assessed?
- What will happen if a payment is missed?
- If you sell your house, will the new buyer be able to assume your mortgage at the same interest rate?
- Will mortgage insurance be required? If yes, how much will it cost? How long will the insurance be required? How do you remove it?

You may choose to ask some or all of these questions (or others you may have) before applying for a loan as a means of determining which lender can best meet your needs.

Be sure that you ask for a photocopy for your records any time you fill out any type of credit application. You can then attach their responses to the above questions as well as any other notes you’ve made.

### **Once You Have Submitted Your Loan Application**

*It is very important that your financial situation does not change from the time you apply for a loan until you close on the property and obtain Title!*

What can cause this to happen and how can you prevent it?

- **Do not change employment** – Lenders look for stability
- **Do not apply for any type of credit** (credit cards, auto loans, lay-away plans)
- **Do not close any credit accounts** (it’s okay to pay them off, but don’t close them)
- **Do not become a co-signer/co-borrower on anyone else’s loan**
- **Do not lend anyone money**
- **Do not borrow money from a family member/friend**
- **Do not fall behind in any of your debts** (including rent, utility bills, phone bills etc.)

### **III. What Home is the “Right” Home?**

How will you know when you see the house of your dreams? A common reply is always “I’ll know it when I see it!” However, if you logically analyze your needs ahead of time, you’ll be better equipped to make an educated decision when you have an emotional response to a house that you see. This section will help you determine and prioritize which characteristics are most important to you in a home. Surely you have heard the common real estate theory that there are three things to consider when buying a house: “location, location, location!” While there are other important factors to consider when choosing a home, answering the following questions will remind you how important location is in your decision:

#### **Geography**

- Will you be looking in urban, suburban, semi-rural or rural areas?
- Do you have a preference with regard to natural features like woods, hills, and lowland?

- Do you have a preference to be near water such as rivers, lakes, streams and ponds?

### **Surrounding Areas**

- What are the characteristics of the surrounding areas for shopping? Are there shopping malls, supermarkets, department and drug stores? Is there a central commercial district?

### **Neighborhood Focus – what is the general appearance?**

- Are the homes and yards well maintained?
- What are the main types/styles and ages of homes?
- How far apart are the houses?
- Are there many visible property enhancements such as: swimming pools, fences, decks, patios or landscaping?
- Are vehicles primarily parked in garages and driveways, or are they parked on the street?
- Are there emergency personnel stations such as fire, police, medical centers close by?
- What are the local ordinances in regards to pets, parking, lawns, etc.?

**Schools – *Links to school districts and information can be found on county websites*** (ask me for the links for the counties you are considering)

- Are they equipped to handle special needs, if needed?
- How do children primarily get to school?
- What is the teacher per student ratio?
- How well do students perform on standardized test scores?
- Are there after-school activities offered?
- What type of sports programs and clubs are offered?

### **Work Issues**

- How long will your commute be? Will you be taking toll roads?

### **Recreation and Entertainment**

- What forms of entertainment are close by?
- What types of indoor and/or outdoor sports facilities are available?
- Are there public parks, country clubs, and/or sports teams close by?
- How far are you willing to travel?

### **Community Involvement**

- Is there a Home Owner / Condo Association? How active are they in the community?

- Is there a Neighborhood Watch program in place?

## **Selecting Your Home**

I suggest having all members of the family mark a copy of the chart below to show their preferences and which features are most important to them. You can then compare notes and come to a consensus about which items are “must haves” and which are negotiable. *Rate each of these on a scale of 1 to 5, with 1 being the weakest and 5 being the strongest rating.*

| <b><u>FEATURE</u></b>                          | <b><u>Must Have</u></b> | <b><u>Nice to Have</u></b> | <b><u>Don't Want</u></b> |
|--|-------------------------|----------------------------|--------------------------|
| <b>House Style (Ranch, Contemporary, etc)</b>  | _____                   | _____                      | _____                    |
| <b>Number of Levels</b>                        | _____                   | _____                      | _____                    |
| <b>Number of Bedrooms</b>                      | _____                   | _____                      | _____                    |
| <b>Number of Full Bathrooms</b>                | _____                   | _____                      | _____                    |
| <b>Number of Half Bathrooms</b>                | _____                   | _____                      | _____                    |
| <b>Separate Dining Room</b>                    | _____                   | _____                      | _____                    |
| <b>Breakfast Nook/Area</b>                     | _____                   | _____                      | _____                    |
| <b>Family/Bonus Room</b>                       | _____                   | _____                      | _____                    |
| <b>Master Bath</b>                             | _____                   | _____                      | _____                    |
| <b>Split Floor Plan</b>                        | _____                   | _____                      | _____                    |
| <b>Walk In Closets</b>                         | _____                   | _____                      | _____                    |
| <b>Fireplace</b>                               | _____                   | _____                      | _____                    |
| <b>Garage</b>                                  | _____                   | _____                      | _____                    |
| <b>Carport</b>                                 | _____                   | _____                      | _____                    |
| <b>Patio/Lanai (screened)</b>                  | _____                   | _____                      | _____                    |
| <b>Patio/Lanai (not screened)</b>              | _____                   | _____                      | _____                    |
| <b>Fenced Yard</b>                             | _____                   | _____                      | _____                    |
| <b>Large Yard</b>                              | _____                   | _____                      | _____                    |
| <b>Small Yard</b>                              | _____                   | _____                      | _____                    |
| <b>Swimming Pool</b>                           | _____                   | _____                      | _____                    |
| <b>Storage Room</b>                            | _____                   | _____                      | _____                    |
| <b>Storage Shed</b>                            | _____                   | _____                      | _____                    |
| <b>Appliances Included</b>                     | _____                   | _____                      | _____                    |
| <b>Approximate Square Feet of Living Space</b> | _____                   | _____                      | _____                    |
| <b>Other Features not listed</b>               | _____                   | _____                      | _____                    |

Now it's time to **Prioritize!** Chances are that you may have to “trade in” one or more features to take advantage of others. That's why it's important to prioritize the “must haves”—the features and characteristics that you don't want to compromise or trade in no matter what. Then you'll have a definite picture in your mind of what you're looking for, and you'll be able to make logical choices when the time comes to decide if “this” is the home for you. The rating will help with this. The characteristics rated high (4 or 5) will be your priorities.

## **VII. Finding the “Perfect” House!**

Once you’ve established your financing and personal preferences, it is my job to find the best homes that meet your needs and wants. There is one more set of information that you need to be aware: **What type of sales there are to choose from.** There are only three sale options available, each with it’s own advantages and disadvantages. Below is the general description of each followed by a detail table showing a side-by-side comparison.

### **FORECLOSURES (also called Bank-Owned or REO)**

Foreclosures are properties now owned by the bank that held the mortgage, which went into default. These homes have been “repossessed”. The bank has already taken a financial “hit” on these properties – however will not generally give them away. They will look for a *purchase price close to the market value for the condition of the property.* Many times the banks will price the property ten to twenty percent (10-20%) below market value intending to get multiple offers on the property which will drive the price up to market value. So, if you are considering purchasing a foreclosure property and really want it, be prepared to pay 10-20% ABOVE THE ASKING PRICE.

### **SHORT SALES**

A Short Sale is a sale where the owner of record is requesting their bank to accept “short” of the amount owed on their loan if they can sell the property at market value. This is an arrangement between the Seller and their bank and has nothing to do with the buyer. However, since the bank is taking the financial “hit”, they are the ones that look at the price and terms of the contract between the seller and buyer, calculate what their net will be and decide whether they approve the contract. If the net is not acceptable to them, they will modify the price or terms. Both the seller and buyer must agree to these changes in order for the contract to close. It’s more complicated than this. It is a lengthy process which may take 4-6 months or more just find out whether the contract was approved, denied or modified by the Seller’s Lender.

### **TRADITIONAL SALES**

Traditional Sales are those where the property is owned outright, or the value of the property is greater than the amount owed by the seller (which doesn’t happen too often these days). You contract with the Seller and both the Seller and Buyer make all the decisions regarding the contract. Closings can happen as quickly as the parties and the financing allow. However, owners always think their homes are worth more than the market shows – so sometimes they are reluctant to negotiate price and terms.

## Side-by-side Comparison of Sale Types

| TYPE OF SALE  | FORECLOSURE<br>(REO/ BANK OWNED)   | SHORT SALE  | TRADITIONAL  |
|---|--|---|--|
| <i>Who Owns the Property and is the "Seller"?</i>                   | Bank that carried the mortgage   | Person who bought the house   | Person who bought the house  |
| <i>Who Do you contract with?</i>                                    | Seller   | Seller – however final approval of price and terms are entirely up to the Bank  | Seller   |
| <i>How soon do you get an answer from the seller on your offer?</i> | Relatively quickly, usually within 5-7 days.   | It could take 4-6 months just to find out if the sale has been approved (or modified).  | Usually within 2-5 days  |
| <i>Condition of Property</i>  | AS IS with the right to inspect & cancel based upon inspection result. REO homes are usually not well-maintained and require repairs or rehab. | AS IS with right to inspect & cancel based upon inspection result. If home is currently occupied, usually at least major components work, but may need repairs. | Owner dictates whether sold AS IS with right to inspect & cancel based on inspection and whether Seller repairs will be honored. If still occupied may not require repairs other than touch ups. |
| <i>Inspection Period</i>  | Usually 5 days   | Usually 5-10 days   | Usually 5-10 days  |
| <i>Time Frame to Close the Transaction</i>                          | Usually 30 days, no more than 45 days  | Requires Seller's bank approval – then 30-45 days for the closing process.  | As quickly as 20 days for cash, usually maximum 45 days for loans  |
| <i>Escrow (Deposit) Required</i>                                    | 10% for Cash; \$1,000 for loans unless specified. Payable within 24-36 hours after acceptance  | \$1,000 -\$5,000. Usually payable within 48 hours of 3 <sup>rd</sup> party bank approval.   | \$1000- \$5000   |
| <i>Seller Concessions Allowed (to help buyer pay for costs)?</i>    | May allow up to 6%   | May allow up to 5%  | May allow up to 6%   |
| <i>Seller Paid Repairs Allowed?</i>                                 | NO   | NO  | May be requested   |
| <i>Special Considerations</i>                                       | Banks charge buyer per day if closing does not occur on schedule. Buyer must sign Bank Addendums dictating Bank's terms                        | Closing date cannot be extended beyond 3 <sup>rd</sup> party lender approval deadline. 3 <sup>rd</sup> Party lender dictates price and terms.                   |  |



Once you've evaluated your priorities, it's time to hit the streets with your search criteria. If you've done your preparation to get to this point, the actual physical search for your home can be short and sweet.

**Here is the process I'll follow to find the homes that meet your criteria:**

- (1) The first thing I will do is put your specified criteria into the computer. Within a few minutes the MLS (Multiple Listings Service) will let me know what homes are currently on the market within your price range. I will send you the homes that are the closest match to your desired profile.
- (2) You will determine which properties you want to see. Bring a small notebook so you can make a record of critical details for each of the homes we visit.
- (3) For each house that appeals to you make sure to obtain the answers to the following questions either from your observations and/or from me:

**General**

- Is the asking price comparable to other houses in the neighborhood? If not, is it higher or lower?
- What are the annual property taxes?

**Outside**

- What is the address of property?
- What is the level of grounds maintenance that will be required?
- What is the age of the home, and does it look it?
- What is the general structural condition?
- Are any visible major repairs or improvements that need to be made?

**Inside** (Make a sketch of floor plan)

- What is the total number of rooms and baths on each floor?
- Are there extra features such as an intercom, security system, central air, or multiple fireplaces?
- Are the appliances built in?
- Is there adequate insulation? (to be determined by a home inspector)
- Is there weather stripping or energy efficient windows?

**Major systems**

- What is the age/condition of each major system (plumbing, electrical, heating, and cooling)?
- What type of fuel is the home heated with?
- What is the average monthly utility cost?

***Do not be surprised if the perfect house is the first one you visit!***

## **VIII. Negotiating a Contract**

Now that you've found your dream home, what is the next step?

First, we'll sit down and work up an offer, otherwise known as a contract. You will want to review it carefully to be sure it states your terms exactly, how much you want to offer, and any applicable contingencies. **It is your responsibility to understand the contract you are signing. It is a legal document.**

Once you, as the buyer, and the seller reach an agreement and sign a contract reflecting that agreement, you have a legally binding contract. Before we get out the pens and pencils, it is important to be aware of the possible scenarios that can arise while negotiating with a seller:

- 1) The seller can accept your offer  
(or)
- 2) The seller can reject your offer  
(or)
- 3) The seller can execute a counter offer – Do not be surprised if you and the seller initially do not see eye-to-eye on every issue. The seller may deliver back to you a counter offer modifying certain terms that are not acceptable to him/her. Typical counter offers include modifications of the purchase price, closing date, possession date, and/or inclusions, although any term(s) of the contract can be countered.

If the seller counter-offers, you will then have to decide whether the new terms will be acceptable to you. It is not uncommon for negotiations to go back and forth several times before both parties agree to the terms.

**Generally, you are in a stronger bargaining position if you have already been pre-approved for a mortgage, are not selling a house at the same time, and have not loaded your offer with contingencies. If we are experiencing a “seller’s market,” you may have to offer at least the list price and possibly more to come in at the top among multiple buyer offers.**

Your offer will need to be accompanied by *earnest money deposit* as well as a letter from your lender indicating your qualification to purchase. Earnest money typically equals between one and three percent (1-3%) of the purchase price. Not only does earnest money indicate your sincere interest in buying but also is often necessary for a contract to be legally binding. Buyers often ask if they are at risk of losing their earnest money, and, no, your earnest money cannot be lost as long as you do not default on your contract. Your earnest money will be credited to you at closing or returned to you if the contract is terminated in accordance with its terms.

When an agreement is reached on all the issues and both the seller and you, as the buyer, have signed the offer, you are both under a legally binding contract.

The search is over and now it's time to take the necessary steps to ensure the smooth and successful closing:

- 1) order title insurance
- 2) hire a professional home inspector
- 3) order an appraisal

I will do my best to be sure the process runs as smoothly as possible.

## **IX. Title Insurance**

Simply explained, "title" is the right to own, possess, use, control, and dispose of property. When you buy a home, you are actually buying the seller's title to the home. A deed is the written legal evidence that the seller has conveyed his or her ownership rights to you. Before the closing meeting when the actual transfer of ownership occurs, an attorney or title specialist generally conducts a title examination. The purpose of the title examination is to discover any problems that might prevent you from getting clear title to the home. Generally, title problems can be cleared up before settlement. But in some cases, severe title problems can delay settlement, or even cause you to consider voiding your contract with the seller.

### **What are some common title problems?**

Title problems come in all shapes and sizes. Following are just a few examples of situations that can create a title problem:

- The home to be purchased was owned by the seller's parents, who intended to use it for their retirement. The seller's father died several years ago, and the mother just recently passed away. A title search reveals that the property is titled in the mother's name, but there is no will on file to indicate how she disposed of it.
- You are buying a house to which an addition was made several years ago. The sellers of the home took out a home improvement loan and did the work themselves. They have repaid the loan, but the lien was never removed from the title.
- The seller of the house added central air conditioning several years ago. The seller and the contractor had a dispute over the workmanship, and the seller withheld the final payment on the contract. The contractor filed a mechanic's lien on the property, which has never been removed.
- You are buying a house with a newly paved driveway. The seller of the house bought his neighbor's share of their shared driveway and converted it into a private driveway when the neighbor built a new driveway on the other side of his house. Unfortunately, ownership of the expanded driveway doesn't appear in the public records. Some "clouds on title" can be corrected relatively easily, like most of the examples listed above, while others can become quite complicated to remove. You should insist on being kept informed of every step in the title examination process. It is important for you to understand your legal rights.

## **What Is Title Insurance?**

Title insurance is the best way to protect yourself against title defects that have occurred in the past, which may not appear until after you've taken ownership of the property. Before a title insurance policy is issued, a title report is prepared based on a search of the public records. This report gives a description of the property, along with any title defects, liens, or encumbrances discovered in the course of the title search. Title insurance protects you against title defects that were not discovered in the course of the title search (for example, forged signatures). If such a defect were discovered later, your title insurance would cover you. Title insurance is different than casualty insurance (auto, life, health) in that you pay a one-time fee (which can vary from state to state as well as between insurance companies) and that it protects against past (as opposed to future) events.

## **How Does Title Insurance Protect You?**

If title problems are severe enough and not covered by insurance, you could actually lose your house. A title insurance policy protects you and your heirs against title defects for as long as you own the property. The policy represents the title insurance company's responsibility to compensate you for any covered loss caused by a defect in the title, or any lien or encumbrance that was not discovered in the title search. Most title insurance policies do have exceptions, however, so it is important to read and understand the policy. Be sure to call the title company if you have any questions about what is covered in your particular policy.

## **The Home Inspection**

The next step is the home inspection. You will have the opportunity to hire an inspector to evaluate the condition of the home. The goal of a home inspection is to give the client a better understanding of the physical condition of the structure and the systems than would otherwise be known.

Typical homes take 2-4 hours to inspect. When the client arrives the inspector often presents a pre-inspection agreement to be signed followed by payment. A good inspector then gives the client an overview of the inspection process and invites the client to accompany him.

Though the order may vary, the inspector, at minimum, visually inspects each of the following:

- Interior (non-cosmetic)
- Foundation
- Framing
- Roof
- Laundry
- Plumbing System
- Heating System
- Attic
- Chimney
- Kitchen Appliances
- Windows
- Bathrooms
- Electrical System
- Air Conditioning System

Additional items such as pools, spas, barns and other outer structures, docks and sea walls, well flow, wood destroying insects, lawn sprinkler systems, fences and gates, and EIFS (exterior insulation & finish systems) may be offered by the inspection company, sometimes at an additional fee.

The inspection company may also offer environmental services such as water testing, radon testing, lead testing, or asbestos testing.

Upon completion of the inspection, the inspector should give the client a summary of what was discovered and an opportunity to ask questions. The client then receives a signed written report of the findings. The report is the client's property; no other party is entitled to see it.

### **The Appraisal**

Once you have determined that there are no defects on title and all inspection concerns have been resolved, it is time to order an appraisal. An appraisal is an estimate of the value of a property, made by a qualified professional called an appraiser. An appraisal of the property you're going to purchase is as important as your credit history in obtaining a mortgage, and it is also a critical factor in determining the size of the loan the bank or mortgage company will approve. After all, the property you are purchasing serves as collateral for the loan. Although the primary goal of the appraisal is to justify the lender's investment, it also protects you from overpaying. The lender usually hires the appraiser and charges the buyer a fee for the service. You will be refused a mortgage, or offered a smaller amount on the mortgage, if the appraisal falls short of the amount you wish to borrow. Your contract will be contingent on whether the property's appraisal comes in at or above the purchase price you and the seller have agreed upon. If possible, you will want to complete your home inspection prior to ordering the appraisal. There is no sense in paying an appraisal fee if issues resulting from the inspection cause the contract to be terminated.

### **Closing or Escrow**

After the searching for a home is done, the negotiations have been completed, the house has been inspected, and the mortgage has been applied for and committed to, the focus suddenly turns to the closing, which may also be called "settlement" or "escrow," depending on your locality.

Closing is the legal transfer of ownership of the home from seller to buyer. It is a formal meeting that most parties involved in the transaction will attend. Closing procedures are usually held at the title company or lawyer's office. Your closing officer will coordinate the signing of documents and the collection and disbursement of funds.

In order to ensure a smooth closing you will want to spend some time preparing for the big day:

It is a good idea to conduct a "walk-through" of the home prior to closing. This will give you an opportunity to see that the condition of the home is the same as it was at the time of contract. Additionally, you will be able to ensure that any repairs agreed to by the seller, based on the inspection, have been completed.

Prior to closing, you will have obtained a homeowners insurance policy and provided this information to your lender and/or closing agent.

One or two days before closing, the closing agent will provide you with a Settlement Statement or a HUD-

1. These documents will contain a detailed description of all costs associated with the transaction, including the exact dollar amount you will need to bring to closing. Prior to closing, you will go to the bank to obtain a cashiers or certified check in this amount.

Ask your closer what other items you may need to bring to closing. Many states require a valid driver's license or other acceptable form of identification. If you've recently married or divorced, you may need to bring additional documentation as well. With all the preparations in place, you are just a few signatures away from owning your home!

### **I Look Forward to Helping You Become the Proud New Owner of Your Dream Home!**

Hopefully you have found this guide to be helpful in preparing for your purchase. Although we have covered a great deal of information in a few short pages, my goal is to provide you with a well-rounded understanding of the overall process. Perhaps there are questions that remain unanswered or new questions that have surfaced, in which case, I look forward to answering your questions and working closely with you to ensure that your home buying experience is not only successful but also enjoyable!

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