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# Buyers' Handbook

For 24 years, we've been dedicated to helping homeowners in Washington navigate the complexities of buying your dream home with expertise and personalized care.

# How to Buy a Home

## 1.Start financial preparation

Buying a house is a major commitment. Before you begin shopping for properties or comparing mortgage options, you need to make sure you're ready to be a homeowner. If you have not done so already, start saving for your down payment (usually 20% of the purchase price) in advance of buying. And, keep in mind that buying a home comes with additional expenses, so at least six months before you start shopping for a home, be sure to save 2-5% of the purchase price to cover closing costs.

A good place to begin is by calculating your debt-to income (DTI) ratio. Look at your current debts and income and consider how much money you can reasonably afford to spend each month on a mortgage payment.

Homeownership also comes with several costs that you have not needed to worry about while you have been renting. You will need to start paying property taxes and maintain some form of homeowners insurance. Factor these expenses into your household budget when you decide how much house you can afford.

Below is a review of some of the major expenses related to a purchase and how much you might want to save for them.

Other key definitions are outlined for your information as well.

- ### Down Payment

Your down payment is a large, one-time payment toward the purchase of a home. Many lenders require a down payment, because it mitigates the loss they might suffer in the event that a borrower defaults on their mortgage. Many home buyers believe that they need a 20% down payment to buy a home but this is not always true. A down payment of that size is not likely to be realistic for many first-time home buyers.

Fortunately, there are many more options for buyers who can not afford a 20% down payment. For example, you may be able to get a conventional loan for as little as 3% down (confirm with your lender). FHA loans have a minimum payment of 3.5%. VA loans and USDA loans even allow eligible and qualified borrowers to put 0% down. There are advantages, however, to making a larger down payment. For one, it typically means you will have more mortgage options. It also usually means you will have a smaller monthly payment and a lower interest rate. Plus, if you put at least 20% down on a conventional loan, you will no longer need to pay for private mortgage insurance (PMI).

## • Closing Costs

You will also need to save money to cover closing costs, which are the fees you pay to get the loan. There are many variables that go into determining how much closing costs will be, but it is usually advisable to prepare for somewhere  between 3%– 6% of the total home value. This means that if you are buying a home worth $200,000, you might end up paying $6,000 – $12,000 in closing costs. The specific closing costs will depend on your loan type, your lender and where you live.

Almost all homeowners will pay for things like appraisal fees and title insurance. If you take out a government-backed loan, you will typically need to pay an insurance premium or funding fee upfront. Before you close on your loan, your lender will give you a document called a Closing Disclosure, which lists each of the closing costs you need to cover and how much you will need to pay at closing. Look over your Closing Disclosure carefully before you close to know how much the loan will cost you before you close and to catch any errors.

## • Other Costs Based On Loan Type

Your loan type might require a specialized inspection as well. For example, you often have to get a pest inspection before you take out a VA loan. Most lenders will schedule this inspection on your behalf and pass the cost along to you at closing. These expenses might seem minor when held up against the other costs associated with buying a home, but they can add up, so be sure to budget wisely. Review your credit profile ahead of time, and see what you can do to raise your score (which can get you a better interest rate). Request copies of all your credit reports, before you start paying off credit card bills and resolve any discrepancies or errors make sure you talk with your lender, fixing the wrong thing could make it worse.

## • Income And Employment Stat us

Your lender will need to see a work history (usually about 2 years in the same type of industry) to make sure your income source is stable and reliable. Preparing your income is all about pulling the right documentation together to show steady employment. If you are on payroll, you will likely just need to provide recent pay stubs and W-2s. If self-employed, you will need to submit your tax returns and other documents the lender requests.

### • Debt-To-Income Ratio

Debt-to-income ratio (DTI) is another financial instrument mortgage lenders use to evaluate your loan application. Your DTI helps your lender see how much of your monthly income goes to debt, so they can evaluate the amount of mortgage debt you can take on. DTI is calculated by dividing your monthly debt by your gross monthly income. For example, if your monthly debts (credit card minimum payments, loan payments, etc.) total $2,000 per month and your gross monthly income is $6,000, your DTI is $2,000/$6,000, or 33%. Your lender will use the debts shown on your credit report to calculate your DTI. It is wise to review your DTI before you apply for a loan. In most cases, you will need a DTI of 50% or less to qualify for a mortgage, although this number varies based on your lender, loan type and other factors.

### • Credit Health

Your credit score plays a huge role in what loans and interest rates you qualify for. Your credit score tells lenders how risky you are to lend money to. Taking steps to improve your credit score and reduce your debt can pay off big as you prepare to get a mortgage. Better numbers mean better loan options with lower interest rates. Your credit score is based on the following information:

- Your payment history
- The amount of money you owe
- The length of your credit history
- Types of credit you've used

Most lenders require a credit score of at least 620 to qualify for the majority of loans. A score above 720 will generally get you the very best loan terms. Keep in mind that you should also avoid taking out any additional loans (large or small) until after the home purchase is finalized as that will affect your credit score.

## 2. Get to know your market

Start searching for homes online. Visit open houses to get a feel for your market and narrow down your must-have list in terms of home type, features and location. When you are ready to start seriously looking give us a call and we will be happy to get a dedicated search going for you that will have your specific home criteria included. We will also be able to guide you through every step and connect you with any other professionals like home inspectors, insurance agents, lenders if you don't have one yet and Title and Escrow companies. At this point, you will also want to be aware of your spending and its impact on your credit report. Do not take out any large loans, because they could lower your credit score and affect your debt-to-income ratio — a calculation that lenders use to determine how much you qualify to borrow. Any major changes related to your income or employment might also change your ability to get financing.

### 4-5 months before buying:

* Start looking at homes online
* Define your wants and needs
* Hire a real estate agent
* Keep track of spending and credit use

## 3. Get pre-approved and start searching

Choose a lender or mortgage broker to guide you through the financing process. Get pre-approved by your chosen lender, so when it comes time to make an offer, sellers will know you are serious, and most seller's now require them before presenting an offer. To get pre-approved, you will need bank statements, pay stubs and tax returns. Most pre-approval letters are good for 60 to 90 days. Below are some of the loan options that a lender will help you to consider.

### • Conventional Loans

Conventional loans, sometimes called conforming loans, are loans that are backed by Fannie Mae or Freddie Mac. The majority of mortgages in the U.S. are conventional loans. Conventional loans are always a popular option for homebuyers, and you can get one with as little as 3% down.

### • FHA Loans

Backed by the Federal Housing Administration, FHA loans are less of a risk for lenders, because the government insures them if you stop making payments. As a result, FHA loans have credit score requirements that are not as strict. You can get an FHA loan with a down payment as small as 3.5%.

## VA Loans

VA loans are mortgage loans for veterans, active-duty members of the Armed Forces, and qualifying surviving spouses. The most popular benefit of VA loans for homebuyers is no down payment required. VA loans are insured by the Department of Veterans Affairs.

## USDA Loans

Another type of government-backed loan, a USDA loan, helps people in rural and suburban areas buy homes. You can get a USDA loan with 0% down, but your home must be in an acceptable rural area and you must meet income eligibility rules. It is always a good idea to have a list of your top priorities that you can share with us so we can make sure we find what you are looking for.

Here are some things you might want to consider when shopping for a house:

- Price
- Square footage
- Home condition and possible need for repairs
- Access to public transportation
- Number of bedrooms
- Backyard/swimming pool
- Local entertainment options
- Local school district ranking
- Property value trends
- Property/real estate taxes

Rank your priorities from highest to lowest based on importance and share this list with us. This will give us a better idea of specific homes that fit your criteria. You may need to spend some time searching for the perfect home, so do not get discouraged if your hunt takes longer than expected.

Only you can decide which property is right for you. Make sure you see plenty of homes before you decide which one you want to make an offer on. Like much of the homebuying process, you can do a great deal of your house hunting online.

## 2-3 months before buying

- Get a pre-approval letter
- Save searches online
- Start scheduling showings

# 4. Make an offer

Once you find a home you love, make your offer! Keep in mind, it might not be accepted right away. When you decide to make an offer on a home, you must submit an offer in writing. Your offer includes details about yourself (like your name and current address), the price you are willing to pay for the home, what your financing looks like. It will also include a deadline for the seller to respond to your offer. We will submit your offer to the listing/seller's agent on your behalf. Most offers also include an earnest money deposit. An earnest money deposit is a small amount of money, typically 1% – 2% of the purchase price. Your earnest money deposit goes toward your down payment and closing costs if you buy the home. It is deposited with escrow generally within 5 days of your offer being accepted. If you agree to the home sale and later cancel, for a non legal reason you may lose your deposit. From here, the seller can respond in one of three ways: (1) Accept the offer: If the seller accepts the offer, you can move onto the next step. (2) Reject the offer: If the seller rejects your offer, the ball is back in your court. You can choose to submit another offer or move onto another home. (3) Give you a counteroffer: The seller can also come back with a counteroffer of their own. They may change the purchase price or the terms of the sale. You can accept the counteroffer, reject it, or make another counteroffer.

Negotiations may go on for some time after you submit your offer. We will help you manage negotiations and do not be afraid to walk away if you cannot reach an agreement. Once you and the seller agree to an offer, it is time to move on to the appraisal and home inspection.

## 1-2 months before buying:

- Find the right home
- Make an offer and negotiate, if necessary
- Sign the contract

# 5. Complete escrow-related tasks and finalize plans

During the 30 to 45-day escrow period, your lender will set various checkpoints in order for their underwriters to approve your loan. This will likely include items like a home inspection, appraisal and requests for additional documentation. This process may take longer if you are getting an FHA, VA or USDA loan, which can require extra paperwork. If you have had a change to your credit or income since you were pre-approved, further verification may be required. At this time, please try not to change your job.

## Schedule the inspection

Lenders usually do not require a home inspection to get a loan, but you should still get an inspection before you buy a property. During a home inspection, an inspector will go through the home and look for potential problems. They will test electrical systems, make sure the roofing is safe and in good shape, make sure appliances are working. After the inspection is finished, the inspector will give you a full report and a list of problems they found in the home (if any). When you receive your inspection results, go over each item line by line and look for major issues. If a home has a serious health hazard (like lead paint or mold), ask the seller to correct the problem before you close. Keep in mind in competitive markets seller's will be less likely to make repairs. Read over your inspection results and then give us a call so we can discuss any major red flags we noticed. Bear in mind that you will be liable for any major repairs after your sale closes. A clogged toilet or a sink that does not drain are not major issues. However, if your home inspection reveals an expensive problem (like cracks in the foundation or poorly installed windows), you may want to consider the cost of repairs versus the purchase price to determine if this is still a good price for you, or do you need to renegotiate.

It is common for us to include a home inspection contingency in our buyer's purchase offer. A contingency gives buyers the option to back out of a purchase (or negotiate repairs) without losing their earnest money deposit if the home inspection reveals major issues with the home. However, in a seller's market some buyer's may waive their inspection and that is a discussion that we will have with you on weighing the pros and cons of waiving it.

# Ask For Repairs Or Credits

After you view your inspection results, you might want to ask your seller to correct some of the problems you found. You can do this in one of three ways:

**Ask for a discounted purchase price considering the results.**

**Request that the seller give you credits to cover some of your closing costs.**

After we discuss the inspection and the best option for you under your circumstances, we will prepare your inspection response and submit your requests to the listing/seller's agent. The seller might accept your request, or they might reject it, or they might offer another alternative. If the seller rejects your request, it is up to you to decide how to proceed.

## Get a home Appraisal

A home appraisal is a review that gives the current value of the property you want to buy. You must get an appraisal before you buy a home with a mortgage loan. Lenders require appraisals, because they cannot lend out more money than a home is worth. If the appraised value comes back lower than your offer, you will need to alert the seller.  Be thoughtful about your offer and consider contesting the results of the appraisal if you believe the appraised value is too low. We generally suggest to our clients to include an appraisal contingency in their offer. Appraisal contingencies are often drawn up to allow buyers to back out of a purchase (or negotiate a lower price), without losing their earnest money deposit, if the home appraises for less than the offer amount. As with inspection contingencies, appraisal contingencies may vary, so make sure you understand the your agreement. Also, some lender will build the appraisal fee into closing costs and some require you to prepay the cost so make sure you ask.

## Start preparing for the move

Now is also the time to contact a local moving company to get your move scheduled. You should file your change of address request with the post office and do some research on how you will set up utilities at your new home. If you are currently renting, you should give your landlord notice according to the terms of your lease.

### Keep in contact with your team

Maintain communication with your lender and us as the details of your loan are finalized. Be prompt about submitting any documentation that is requested. You will also need to let your lender know your preferred home insurance provider.

**Find a home inspector and have inspection completed**

**Shop for homeowners insurance**

## 6. Close on your new home

About 3-5 days before closing we will arrange a final walkthrough to visually inspect the condition of the home. This is especially important if you requested repairs after your home inspection. This time allows you to check and make sure that the seller has made the repairs you  requested and cleared out the property. Walk through the home and make sure the seller has not left any belongings. Check your repair areas if you requested them . You may also want to double-check your home's systems one final time to make sure everything is in working order. If everything looks good, it is time for you to confidently move toward closing. The escrow office will generally be calling you 2 days before closing to set up an appt for you to come in or have a notary come to you to sign the closing docs your lender has prepared. Depending on the complexity of the deal, this could take a few hours. If you want to read your loan docs in their entirety please let us know so we can let escrow know and they will send them to you in advance of your signing appt. Once the transaction has funded and recorded the new deed in the County then it is time to celebrate and we can meet to give you keys.

**Schedule final walk-through**

**Sign paperwork**

**Get your keys!**