

The Loan Process...Explained in 12 Steps!

So you've realized the best time to buy a new home is *right now*, and you've looked around at different houses you'd like to buy, but the question remains — where do you begin and how do you get a loan?

For many first-time and even second-time home buyers, the loan process is confusing and unfamiliar. Many questions arise such as is my credit score too low to qualify or just how much house can I afford?

To help with these concerns and more, here's a detailed step-by-step list of what you can expect when you begin the home-buying process.

1. **GET A PRE-APPROVAL** letter from your lender. Before you start shopping around for a home, you should always have a pre-qualified or pre-approval letter ready. The difference between a pre-qualification and a pre-approval is that the pre-approval actually means something *because* it has actually verified all of your income information, whereas the pre-qualification just takes your word for it. True, the pre-approval takes a little longer to obtain because, well, verifying everything takes a little longer. Our advice: If you're serious about buying a new house, don't waste your time with a pre-qualification — just go straight for the pre-approval. You'll be glad you did.

2. **NOW THAT YOU** know how much money you can be approved for from the pre-approval letter, you can seriously begin shopping for a new home. To get a good estimate of how big of a mortgage you can afford (translated into monthly payment amounts), seek the advice of your lender.

3. **BEGIN SHOPPING FOR** potential homes. To do this, you should definitely contact your real estate agent and ask them to represent you. They



are worth their weight in gold.

4. **ONCE YOU FIND** the home you want, place a bid. Your real estate agent will help you with this step — along with questions about the neighborhood, house, and local taxes and rules.

5. **ONCE YOU WIN** the house, the purchase agreement is sent to the lender. Your lender will then begin the loan process.

6. **YOU WILL HAVE** to submit documentation of income, your credit score is pulled at the very beginning, and also proof of assets.

7. **YOU WILL ALSO** have to decide what type of loan you need. So talk to your lender and research whether an FHA loan or a traditional conventional loan will suit you best.

8. **AN APPRAISAL WILL** be ordered on your new house (to make sure it's worth the amount you're borrowing on it).

9. **ONCE YOUR FINANCIAL** information is verified, the house appraises, and you fit all qualifications, your loan will be approved.

10. **ANY REPAIRS THAT** do not meet city standards (or FHA qualifications if you chose that type of loan) will have to be done.

11. **THE SELLERS HAVE** to obtain the city C of O, which is the Certificate of Occupancy.

12. **A DATE WILL** be scheduled between the two sides (buyer and seller) for closing, which is when you go in and sign all the paperwork and get the keys. At that point someone will probably say, "*Congratulations, you're a homeowner!*"

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Energy Perks That Home Sellers Should Accentuate!

With the rising cost of energy prices there are certain perks to watch for that may minimize those monthly utility bills. If you're selling a house that has any of these features, make sure to mention it to your agent when marketing your home.

Energy Star Rating: This is an energy rating introduced by the U.S. Environmental Protection Agency in 1992 to identify energy-efficient products and reduce greenhouse gas emissions. If any appliances or lighting are included, look for this rating. These products are designed to save money while consuming less energy. An entire house can also have this rating if the homeowner participated in an *Energy Star* program (the rating should appear on the inside of the home's circuit breaker). A home with this designation performs at least 30 percent *more efficiently* — which would be a definite plus for any home buyer.

Insulation: A poorly insulated house can waste your valuable heating energy by 25 to 40 percent. If your home has extra insulation in attics, crawlspaces, or has any other wraps or sealant applied to reduce air escaping from gaps in the construction, it's definitely worth pointing out.

Windows: 25 to 50 percent of your heating and cooling comes from your windows, and new technology has led to even more effective ways of managing this. If you have newer windows with insulated frames and a low U-factor rating, this is a feature to make prospective buyers aware of.

Heating & Cooling Systems: A furnace is measured by the Annual Fuel Utilization Efficiency rating, or AFUE. A minimum fuel to heat conversion rating is 78 percent. If you have a furnace with an *Energy Star* label, your rating is higher than 90 percent — which is much more desirable when paying high fuel prices. For warmer months, an air conditioner should have at least a 10 Seasonal Energy Efficiency Ratio, or SEER. That rating would be 12 or higher for an *Energy Star* label.

Other system perks include the type of unit you have, such as a heat pump. Depending on the temperature zone, these can provide economical year round heating and air conditioning. A tankless hot water heater, for example, provides an endless supply of hot water and can save 20 to 30 percent of your energy bill. These systems are more expensive than some of the conventional methods of heating but may provide a definite selling asset for any homeowner.

In addition to actual heating and cooling devices, feel free to point out other energy savers such as programmable thermostats with timers, ceiling fans, or radiant flooring.

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Should You Keep Renting or Should You Buy?

Falling home prices and historically low interest rates can make buying a home appear as the ideal investment. But before you start down that road to becoming a happy home owner, perhaps you should pause for a moment and ask yourself this: Should you keep renting or is NOW the best time to buy?

There's no question that home ownership is an integral part of the American Dream. But sometimes people's finances and life circumstances can make renting a better option. How do you decide? We're going to suggest that you ask five questions:

1. *How much house can you afford?*
2. *How do the costs of renting and buying compare?*
3. *How long are you planning to stay?*
4. *How long is the commute?*
5. *Do you really understand the mortgage process?*

How much house can you afford?

Before you go shopping for your dream house, take out a pencil and paper. Multiply your total household income before any deductions by 28%. Divide that figure by 12. This is the most you should consider spending on a monthly mortgage payment, which should cover principal and interest payments on your loan plus real estate taxes and homeowners insurance.

It's best to know what you can afford *before* you start house shopping. Many buyers have been tempted to stretch for a dream home, only to find out it was difficult to afford over the long run. It's your right to eat franks and beans and skip vacations to afford your dream house. Just don't go so far in debt that all of your other life goals — including financial security and retirement — are shortchanged.

How do the costs of renting & buying compare?

Now that you have a good idea of what you can spend, compare the cost of renting versus buying comparable homes in your area. Seek the advice of your local Real Estate professional to help you determine the interest rates and property taxes in your area, for instance. You'll also need to estimate some items like the cost of house insurance and maintenance.

To see what a comparable rental might cost, seek the advice of your Realtor® again. When you're done with the cost comparisons, you should have a fair idea of whether owning and renting are financial equivalents in your area, or if one option makes more economic sense than the other.

From the Inside: "Is Buying a New Home a Better Value Than Buying an Older Home?"

Unfortunately there isn't a definitive answer to this question. You should look at each home for its individual characteristics. Generally, older homes may be in more established neighborhoods, offer more ambiance, and have lower property tax rates. People who buy older homes, however, shouldn't mind maintaining their home and making some repairs. Newer homes tend to use more modern architecture and systems, are usually easier to maintain, and may be more energy-efficient. People who buy new homes often don't want to worry initially about upkeep and repairs.

What Should I Look For When Walking Through A Home?

In addition to comparing the home to your minimum requirement and wish lists, use a *Home Scorecard* (see your Realtor®) and consider the following:

- Is there enough room for both the present and the future?
- Are there enough bedrooms and bathrooms?
- Is the house structurally sound?
- Do the mechanical systems & appliances work?
- Is the yard big enough?
- Do you like the floor plan?
- Will your furniture fit in the available space? Is there enough storage space? (Bring a tape measure to better answer these questions.)
- Does anything need to be repaired or replaced? Will the seller repair or

How long are you planning to stay?

Let's say the number crunching you've done suggests that buying a home is the better option for you. Before you sign a contract, ask yourself a third question: How long are you planning on staying?

As a general rule, you should plan on staying in a house that you buy for at least five to seven years. If you try to sell before then, you may suffer a loss on the home because you haven't had much time to build enough equity to recoup the transaction costs. The longer you can stay in a home, the more likely you are to come out ahead. That's why you should make sure you like the schools and amenities in the neighborhood where you're considering to buy.

How long is the commute?

Many first-time or even second-time home buyers can't afford a house in the center of town, but may be able to manage the mortgage on a house in a distant suburb. The drive out to the new house may be a breeze on a sunny Sunday afternoon when you're house hunting. But to really understand the commute, try the drive at rush hour on a Monday morning. ...And what about the commute back home in bad weather?

If you find the commute difficult, this may not be the right area in which to buy. If that's true, you don't have to give up on your dream of home ownership. Just try to find a house within a manageable drive from your job.

Do you really understand the mortgage process?

As you approach settlement, you'll have a lot of documents to review and sign. You may want to consider having an attorney represent you at settlement. That way, an expert will be looking over the fine print, and explaining all the possible repercussions to you. Also, as you review the terms, don't just imagine the best case scenario, either. Again, ask the tough questions.

Buy when it's right

The vast majority of adult Americans find that buying — rather than renting — has made the most sense for them and very few regret doing it. It could be the right move for you, too. Just don't assume that home ownership always is the right decision. If you ask a lot of questions, you'll be approaching home ownership with your eyes wide open. And that's the way you should do it.

Ready to take that big step and become a proud homeowner? Contact our office today.

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replace the items?

- Imagine the house in good weather and bad, and in each season. Will you be happy with it year-round?

Take your time and think carefully about each house you see. Ask your real estate agent to point out the pros and cons of each home from a professional standpoint.

What Questions Should I Ask When Looking At Homes?

Many of your questions should focus on potential problems and maintenance issues. Does anything need to be replaced? What things require ongoing maintenance (e.g., paint, roof, HVAC, appliances, carpet)? Also ask about the house and neighborhood, focusing on quality of life issues. Be sure the seller's or real estate agent's answers are clear and complete. Ask questions until you understand all of the information they've given. Making a list of questions ahead of time will help you organize your thoughts and arrange all of the information you receive. Your *Home Scorecard* can help you develop your question list (see your Realtor®).

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