

10 Steps to Home Ownership

Buying a home, get the facts. 10 steps to home ownership. Buyer information on financing and purchasing a home. Mortgage information and interest rates. Better Properties RE buyer services in Washington State.

Here is a summary of the steps that you will take from your home search to when you can actually close the loan on your new house. If you are a first-time home buyer, don't be overwhelmed by the number of items listed or their complexity. NOTE: All dollar figures listed in this section are estimates and will vary due to many factors including which region of the country you live in.

Mortgage Calculator

1. Using the loan and pre-qualification link provided, determine the price range of the home that you can afford. Look for houses in this price range in the communities that you would like to live in. For the most part, you should count on spending two to four weeks looking at homes. This will give you enough time to look at plenty of homes and make your decision.

It's a good idea to seek out a real estate agent to assist you with locating homes available in your price range & in the communities that you are interested in. You can send a lot of time and energy calling, agent after agent, about ads in the paper and real estate sales booklets. A professional realtor can give you a list of all the houses that are on the market and assist you in locating the best home available in your price range. This will save you time, money, energy and the frustration of finding out the houses you are interested in are already sold.

During this time period, it is also a good idea to get "pre-approved" for a loan. This is different than a pre-qualification. The bank or mortgage company actually does a credit check for a pre-approval. Having a pre-approved loan gives you an advantage when making an offer in step 2.

2. When you find a home that you want to purchase, the next thing you do is make a bid (offer). A realtor can provide you with a standard residential sales contract. If you are placing a bid, yourself an attorney may or may not be necessary at this point (Most sales contracts are fairly standard), but will be required later in the process. However, you may decide that you want an attorney to review the contract.

The sales contract will most likely contain some contingencies on riders attached to the contract. Examples of some contingencies are: you're obtaining financing for a specified rate and term, selling your current home, and obtaining a satisfactory (to you) home inspection. Your real estate agent or attorney may include other items.

This offer to purchase a home will be accompanied by earnest money of \$1,000 or more, depending on the price of the home. This indicates to the seller that you are making a serious offer. The earnest money is normally in the form of a check made out to the Broker (not the seller). It is deposited in an escrow account and will be applied to

your down payment. If the sale is not finalized for a reason beyond your control (i.e. due to one of the contingencies), the earnest money will be returned to you. Subsequent offers and counter offers may take place until all terms are agreed upon by both parties.

3. Have the home inspected by a professional, bonded inspector. (NOTE: The buyer normally pays for the home inspection - it will run somewhere in the area of \$275 - \$600.) The home inspection usually takes place within five days after signing the contract. If there are any major flaws in the home, they can be dealt with before you apply for the mortgage. If these issues cannot be dealt with to the satisfaction of the buyer, your contract should allow you to back out at this time.

4. Apply for a mortgage. NOTE: You will probably have to pay a loan application fee of \$100 to \$300. Some lenders also charge you prepaid points. (One point refers to 1% of the loan amount. Points are paid to the lender or mortgage company to cover their cost for the upfront processing of the loan.) You may decide to "lock in" the rate at this time, or the lender may allow you to do it at a later point in time. (If you have been pre-approved for a loan, some of the steps in this process will have already been completed.)

When you apply for a mortgage, what are some of the items that are needed? (These may vary depending on the lender.)

Social Security cards and driver licenses

Residence addresses for the past two to five years

Your landlord's name and address

Names and addresses of each employer (past two to five years)

Your most recent pay stubs

Two years signed tax returns and W2s

Names, addresses, account numbers and balances of all checking, savings, credit cards and installment loans

Two most recent bank statements on all accounts

Information on any stocks or bonds you own

Details of all real estate owned

Copy of fully executed sales contract, riders and listing sheet for your current home (if applicable)

Divorce decree & child support agreements

Application fee

5. You will receive a "good faith" estimate of the closing costs from the lender. This is called a "RESPA Statement." It includes the costs for: points, appraisal, title search, title insurance, survey, recording of deeds, and the bank's attorney fees. Some of these items may be included in the points that they charge.

6. At this time, there are several other items that may need to be done before the lender gives final approval to the mortgage title, even though the title company stated it was clear.

Buyer's Title Insurance - This covers you, the buyer, in the event that the title is not clear. This is usually optional, but recommended.

Private Mortgage Insurance - Again, this is something that most lenders require if your down payment is less than 20 percent of the purchase price. It is a protection for the lender in case you default on the loan.

Homeowner's Insurance - This is an insurance policy that covers the cost of repairing or rebuilding your home in the event of a natural disaster. Obviously, this is beneficial to both you and the lender. This is something that you will shop around for on your own. You can start with your auto insurance company. Your Realtor may also have some suggestions.

With the exception of the homeowner's insurance, all of the above costs, plus any additional ones such as the appraisal, survey, recording of deeds and the bank's attorney fees will be included in the RESPA provided by the lender.

The entire cost to you, the buyer, will usually be in the range from 2% to 3% of the purchase price of the home. (The actual amount may be higher or lower than these limits depending on the lender's pre-paid points.)

This means that you should count on having this much cash available besides the amount of your down payment and the amount of points paid to the lender. The down payment is usually a minimum of 5 percent to 10 percent of the selling price.

So, how much will this cost? Let's take an example of a \$150,000 home. Suppose your lender allows you to put a 5 percent down payment on the house and your closing costs will be between \$1,000 and \$1,500, and the amount of points paid is 1.5 percent (of the loan). This would come to:

Down payment: \$7,500

Closing costs: \$1,000 to \$ 1,500

Points: (1.5 percent) \$2,138

Total: \$10,638 to \$11,138

7. If your mortgage is approved, the lender will send you a letter of commitment. If the information listed below is not provided, you will request an exact accounting of the closing or settlement costs and the required documents that you will need to bring to the closing.

8. All of the parties will agree on a closing date. For the closing, here is a list of some of the items that the three parties are responsible to bring.

The lender: RESPA, Truth in Lending Disclosure Statement, the mortgage, the mortgage note, application for any escrow accounts required for the buyer and the check for the seller.

The seller: property deed, final utility bills, final tax bills, any documents required to clear the title, and keys to the house.

The buyer: cashier's check for the remainder of the down payment, plus the balance due for any other payments (you will be informed of the amount), any documents required by the lender, you may need your check book for small dollar amounts, and you should have your lawyer present if you are representing yourself.

9. You will select a walk-through date. This is your opportunity to inspect the home one last time before closing. It is usually scheduled a day or two before the closing date.

10. CONGRATULATIONS! Closing day has arrived. After signing numerous documents and taking care of final payments, you will become the proud owners of your own home.