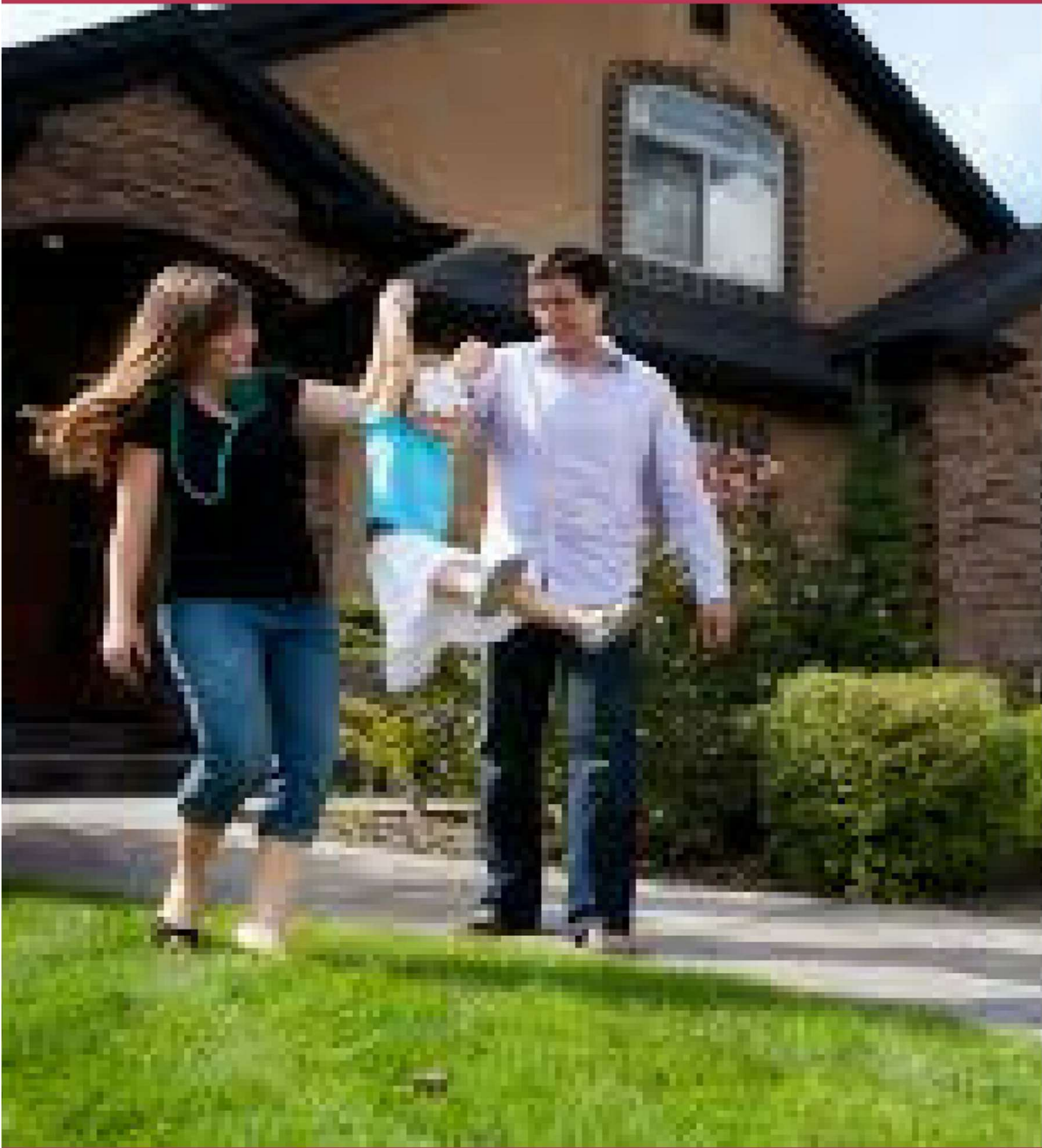


*"Step by Step Roadmap to Home Ownership"*



Lee Van Der Heyde

# **FIRST TIME HOME BUYER GUIDE**

# **Home Buyer Education**

Compiled as guide to assist home buyers to better understand the process of buying a home in Florida.

Lee Van Der Heyde

Broker Associate

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## **Introduction**

With the current interest rate near an all-time low, you've decided to go for it and buy your Home.

Buying a home can be both thrilling and nerve-wracking at the same time, and this may be more so if you are a first-time home buyer.

It's nerve-wrecking because the process can be overwhelming when you do not know what to expect and do every step of the way.

Just remember with proper planning, preparation and assistance there is very little to worry about.

This guide was compiled to provide a "to the point" guidance on what to expect each step of the way throughout the home buying process. You will know what to expect and what is expected from you as a home buyer.

## **Understanding the Process**

Although the home buying process have many steps, the following is a simple breakdown of this process, and each step will be explained in detail later:

- Get pre-approved for a Mortgage.
- Make a wish list. (Where you want to buy, the type of house, size, etc.)
- Contact a real estate professional to assist you as the “buyer agent”.
- Real Estate agent setup your MLS Search to select homes that closely match your criteria/Dream list. (MLS is the multi listing service where all homes for sale by real estate agents are listed)
- Select and view homes matching your criteria.
- Submit an offer.
- Negotiate the terms.
- Deposit your Earnest Money Deposit.
- Arrange for the home inspection.
- Negotiate repairs or concessions based on the findings of the inspections.

- Do the formal mortgage application.
- Provide all the documents and information required by the lender for the loan to go into underwriting.
- The lender issues a loan commitment.
- The lender orders an appraisal.
- Buyer shop for home owners and Flood insurance.
- Lender orders a survey.
- Title commitment gets issued by the closing agent.
- Settlement statement is provided. (The settlement statement will provide all the financial detail of the transaction and is issued at least 3 days prior to closing)
- The buyer and/or lender wire the required funds (deposit and closing cost) to the closing agent.
- Buyer arrange for connection of utilities in their name for day of closing.
- The buyer does a walk-through of the house prior to closing to ensure it is still in the same condition as when they submitted the offer.
- **Attend the closing and receive the keys to your new home!**

The steps above may seem overwhelming, but remember that your real estate agent, your mortgage broker/lender and the closing agent/title company agent are all there to guide and assist you every step of the way.

A good real estate agent will keep track of all the dates on the contract and keep you informed throughout the process.

For your benefit there is a process flowchart at the bottom of this report.

Below are the most important steps in buying a house. and remember that your real estate agent, your mortgage broker/lender the title company or lawyer are all there to guide you through each of these steps.

## **1. Getting Pre-Approved**

Obtaining a pre-approval to buy is the first step, and it is also the most important step in the process of buying a home.

This pre-approval serves 2 purposes:

- The 1<sup>st</sup> is for you, as the buyer to know the amount can buy for, and
- the 2<sup>nd</sup> is to show sellers that you are a serious buyer, and when submitting an offer, it will be a stronger offer because a lender already approved you.

Many home sellers will not even look at an offer where the buyer has not been pre-approved for a loan. This is also the reason that many agents will not even go as far as showing homes when a buyer is not pre-approved.

Getting a pre-approval means sitting down or having a conversation with a mortgage lender or mortgage broker who will check your finances and based on that, issue a pre-approval letter.



This does not mean that you must use this lender. You will be able to shop around later for more competitive loan packages.

**Valuable Tip - Organize Financial Documents**

*Getting your documents ready before visiting your lender to apply for a mortgage will make your mortgage application process much easier.*

*Typically, mortgage lenders will request 2 recent pay stubs, the previous 2 years' W-2s, tax returns and the past 3 months of bank statements (All pages, even the blank ones) for all those whose income will be used to pay the mortgage.*

*The general rule is to rather have too much information and documents available when visiting the lender than having to scramble around looking for documents and thereby delaying the process.*

Special Note:

**What is the difference between a Mortgage lender and a Mortgage broker?**

- *A Mortgage LENDER is generally a financial institution that makes loans directly to you. They provide you with the loan options that are provided by their institution.*
- *A Mortgage BROKER does not lend money and usually work with several lenders where they source a suitable loan package for their clients.*

## 2. Appoint a real estate "Buyers Agent"

The "buyer agent" is there to represent the buyer and the best interest of the buyer in the real estate transaction.

The "buyer agent" will advise his clients on the market value of the home, provide details on the community, assist the buyer to draw up the contract, explain the contract, negotiate terms on behalf of the buyer, monitor contract deadlines and co-ordinate the other steps necessary for a sale to be concluded.

The listing agent on the other hand is contractually obligated represent the seller and has a duty to negotiate the best possible terms for his client, the seller.

**MYTH:** *It is a misconception that a home buyer will save money working directly with the listing agent. As a matter of fact, the listing agent is contractually obligated to serve the best interest of the seller so essentially the buyer will be representing himself/herself.*

## **Who Pays the “Buyer agent” commission?**

*In short, the commission in a real estate transaction is generally paid by the seller **only** when a real estate transaction is concluded. This commission is shared between the co-operating brokerages.*

*Exclusions to this may be where a seller is selling his home without the assistance of a real estate professional (such as a “for sale by owner”) and where no commission is offered.*

## **Some “Buyer agent” obligations:**

- Discuss property requirements (Your wish list and price), assist the buyer in identifying suitable properties. Real estate professionals have access to the detail of all homes listed on the local real estate board MLS. A real estate professional can arrange showings for any of these homes listed for sale.
- Once a property is identified, compile a market price evaluation and provide the buyer with a value range for the property based on the local real estate market activity.

- Assist the buyer to compile and submit an offer / contract for the property. (The “buyer agent” will guide you through this process) Please note that only once an offer is accepted will become a legal binding contract.
- Assist the buyer with negotiating terms of the contract.
- Assist the buyer with monitoring contract deadlines.
- Co-ordinate activities such as inspections, appraisals, survey etc.

### **Some Buyer obligations:**

- Provide your real estate professional of a copy of the pre-approval letter.
- Provide the buyer agent with a clear understanding of your requirements (Wish List)
- Be available at reasonable times for consultation and to view homes.
- Conduct all negotiations and efforts to locate a property only through the buyer agent and refer to “buyer agent” all inquiries of any kind from other real estate licensees, property owners or other representatives. Please note that discussing issues directly with other real estate

professionals or property owners may put you at a serious disadvantage and may jeopardize relationships. *(In Short work only through your buyer agent in both making and answering inquiries)*

You may want to interview more than one agent and select one who you are most comfortable working with. The general practice is that, although the commission of the real estate agents is paid by the seller, the buyer agent brokerage may charge the buyer a small administrative service fee. This fee is normally paid at the closing.

### **3. The Process from Contract to Closing**

#### **Step 1: Submit a reasonable offer.**

Your real estate agent will assist you to research market data and to discuss the terms you wish to present such as:

- The price offered,
- The deposit and financing detail,
- The Ernest money deposit amount and terms offered,
- The period allowed for seller to accept the offer,
- The proposed closing date,
- The mortgage contingencies and requirements,
- The inspection period,
- Other terms.

The real estate agent will also ensure that all other required addendums is included in the contract.

When submitting the offer the agent will include the pre-approval letter and data to support the offer.

## **Step 2: Receive and negotiate a counter offer.**

In most instances the seller will return a counter offer on one or more of the terms of the contract. The “buyer agent” will discuss these with the you and assist you to negotiate the terms offered by the seller.

## **Step 3: The contract is executed.**

This merely means that the buyer and seller agreed on the terms of the offer and both parties signed the contract. The date both parties signed is called the “effective date” (ED).

### **Importance of the ED (Effective Date)**

*All time periods in the contract is recorded from the ED. Most contracts will use Calendar days as calculating the time periods.*

*For example: the contract may stipulate that the Ernest money deposit must be made within 3 days. This means that the deposit should be made with 3 Calendar days or the buyer will be in default of the terms of the contract and the seller may cancel the contract and/or take legal action against the buyer for breach of contract.*



## **Step 4: Ernest Money**

It is the duty of the buyer to deposit the Ernest Money with the closing agent within the time period specified in the contract and to obtain a receipt.

In most instances the seller chooses the closing agent/Title company and will pay the closing fee.

### **Explanation of Ernest Money Deposit**

*This money is kept in trust by the closing agent and will be a credit to the buyer at the closing. This money is to show the seller that you are committed to buy the home. This is important, because the seller will remove his home from the market "pending a sale".*

*The terms of the contract will determine how this money will be disbursed should the sale not take place. In some instances, the money will be returned to the buyer, and in some instances the seller may lay claim to this deposit.*

*Your real estate agent will be able to explain this in detail.*

## **Step 5: Submit a Mortgage Application with a mortgage lender/Mortgage broker**

The buyer submits his application for a mortgage loan. The contract will stipulate the time frame by when this application must be made. Again, the buyer may be in breach of contract if this is not done within the time specified in the contract.

## **Step 6: Home Inspection.**

The buyer will contact a home inspector/s to conduct the inspection/inspections the buyer feels is necessary to determine the condition of the property.

The buyer pays for these inspections at the time they take place.

Depending on the terms of the contract, the buyer may request issues to be fixed, or even cancel the contract, (depending on the type of contract and contract terms) if this is done within the time frame stipulated in the contract.

Your real estate professional will provide clarity based on your specific contract.

## **Step 7: Home Owners & Flood Insurance**

Obtain quotations for home owner insurance, and if required flood insurance, and provide this to your lender.

## **Step 8: Do the HOA/Condo Application**

This is only applicable when buying a home inside a managed community where this is required. Normally there is a small application fee associated with requesting approval to buy a home in the community.

Buying a home in a condo association, there is a legal obligation for the seller to provide the home buyer with the condominium association documents. The buyer has the opportunity to study these documents and either accepts or rejects it (For example the buyer believes there is inadequate reserves and decide to cancel the contract). The has the right to cancel the purchase and to retain his earnest money deposit. (It is IMPORTANT to note that the buyer must do this within the specified timeframe (In Florida the timeframe for the buyer to decide is within 3 days after receipt of the association documents)

## **Step 9: Mortgage Underwriting**

The mortgage loan underwriter may request additional information in order to finalize the loan. It is very important to provide these as a matter of priority for a loan commitment to be issued within the time specified on the contract.

## **Step 10: Title commitment is issued**

This merely means that the title company secured title insurance for the property in order to commence with the transaction. The property title is clear for the title to be transferred to the new owners. (The buyer)

## **Step 11: Lender issues a Loan Commitment.**

The time frame by which this is required is determined by the contract. This provide assurance to the seller that the mortgage loan was approved. In many instances there will be conditions to be met for the approval to be finalized, such as the appraisal of the property to name one example.

### **Step 12: Appraisal is ordered.**

The mortgage company orders the appraisal for the property. The buyer will be required to pay for this upfront and it will be shown in the closing disclosure.

### **Step 13: A Property Survey is ordered** (if one is not already available)

The buyer may be required to pay for this upfront.

### **Step 14: Closing statement.**

At least 3 days prior to closing date the closing agent/title company will issue a closing statement. This will provide details of all closing cost and fees, deposits, commissions, insurances, pro-rations for taxes and utilities, etc. and will show the amount of money the buyer will require for closing. The title agent and your real estate agent will also be able to explain the detail of the closing statement items.

### **Step 15: Utilities**

Arrange for activation and/or changeover of utilities to your name to take place on the day of closing.

### **Step 16: Wiring the Funds**

The buyer and/or the mortgage company wires the funds to the closing agent/title company. It is recommended that this is done a day or two before the day before closing to ensure the funds are available on the day of closing. The funds will be disbursed by the title company/closing agent only after the buyer signs the closing documents.

### **Step 17: Walkthrough**

The buyer conducts a walk through the property to ensure it is in the same condition as on the time the contract was executed. It is recommended that this takes place as close as possible to the closing.

### **Step 18: Attend the closing**

On the day of closing the buyer will sign all the closing documents, disclosures and the closing statement. If the buyer is unable to be present (out of town/state) they may opt for a "Mail away" closing.

Once this is done the buyer receives keys to their new home!

Who will attend the closing?

The closing agent will present and explain the documents.

In Florida it is customary for the buyer and seller not to attend the closing together. Normally the seller will sign the closing documents upfront and the buyer will sign afterwards.

Your real estate buyer agent should attend the closing to answer any questions that may arise.

Your mortgage lender/broker may choose to attend the closing or not but usually they do not attend closings.

## **Down Payment and Closing Cost Assistance Tips**

### Research Available Home Buyer Assistance Programs

Investigate the home buyer assistance programs available in your State, County, town or area. Your real estate agent should be able to provide you with this information and provide you with lenders that work with these programs.

One of the state programs available through Florida Housing to first time home buyers in the state of Florida will provide substantial down-payment assistance to qualified 1<sup>st</sup> time home buyers.

These programs will pay allow 1<sup>st</sup> time home buyers to get into a house for very little money out of their pocket but a requirement may be that the buyer must commit to stay in the home for a specific period.

Please note that there are qualification requirements and buyers may be required to pay back the money should the decide to sell the home.



## Seller Contribution

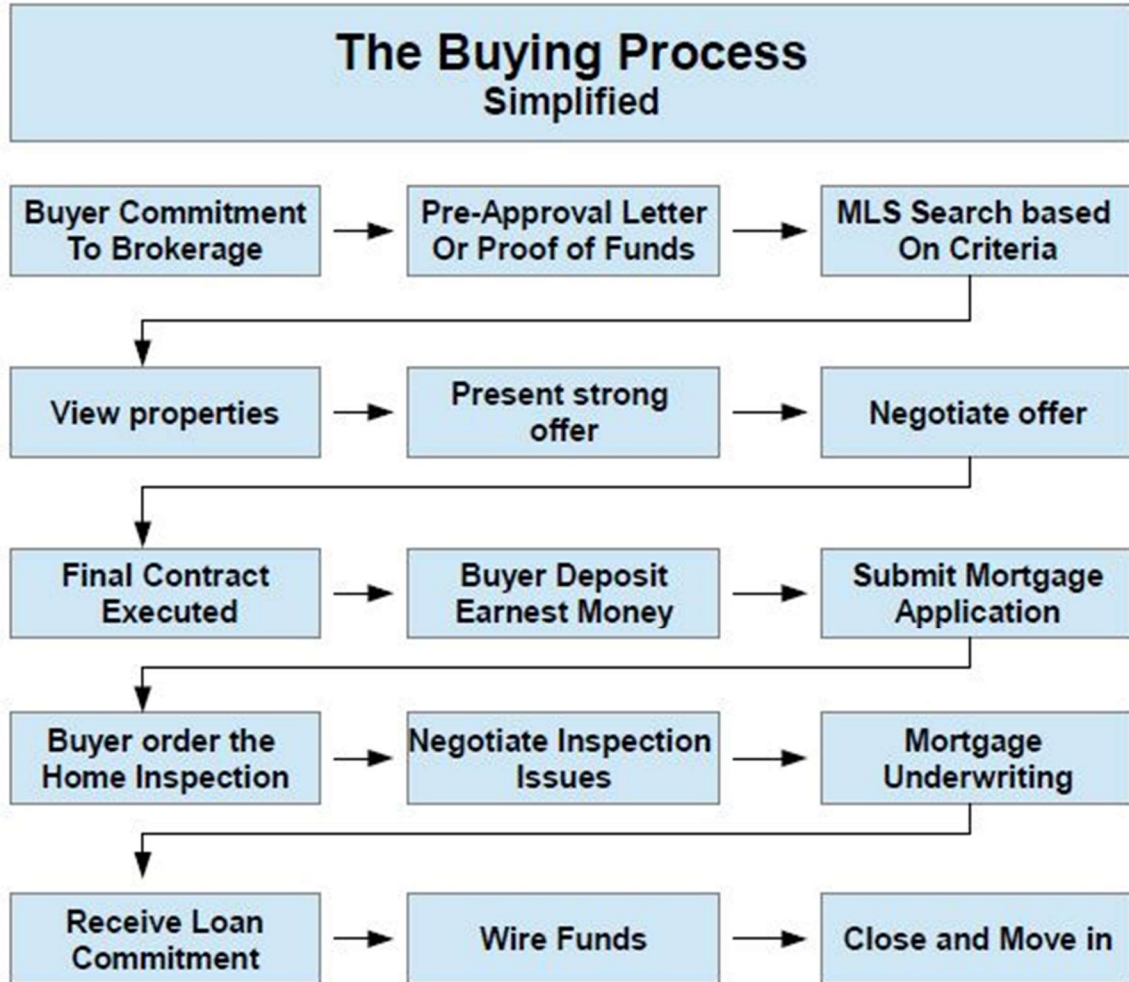
When submitting an offer discuss with your agent the possibility to include in the contract a request for a contribution from the seller towards closing cost.

Discuss this with your lender as there are some limits depending on the type of loan.

## Mortgage Company Contribution

Some mortgage companies will provide some down payment assistance or closing cost assistance to their clients. Discuss this possibility with your mortgage lender/Broker.

# The Real Estate Transaction Flow Chart



## **Summary**

I trust that these tips will be valuable to better understand the process.

Feel free to reach out to me for a free no-obligation consultation to discuss your real estate questions or requirements.

Lee Van Der Heyde – Broker Associate

Equity Realty

Serving SW Florida

ftmyersrealestate@yahoo.com

(239) 747-8507

**Legal Disclaimer:** The steps outlined in this report is a breakdown of the general process and may not include all the steps necessary to complete a real estate transaction. The information in this report should be considered a very general guideline and the author does not guarantee the accuracy thereof. The content of this report does not in any way provide any legal or financial advice.

All entities or individuals must do their own due diligence and it is recommended that they obtain professional legal advice and professional financial advice from advisers licensed in these respective fields, before and during any real estate, legal or financial transaction.