

# The Home Buyers Handbook

## Buyer Needs Versus Wants

This document is designed to help you think through what your wants and needs are in your next home. Complete the areas of this checklist that apply to you and bring this completed document to our next meeting. This will help me understand what you are looking for so I will be able to help you find the best homes possible.

The definition of a "Want" is something you would like to have and that you could change over time, such as:

- \*Paint and carpet
- \*Deck, pool, hot tub
- \*Hardwood floors
- \*Updated kitchen or baths
- \*Fireplace
- \*Landscaping

The definition of a "Need" is anything that you must have and cannot easily change, such as:

- \*Enough living space
- \*Number of bathrooms
- \*Garage or storage area
- \*Yard size
- \*Neighborhood/Schools
- \*Home office

### GENERAL

Approximately how many square feet of living space do you require? \_\_\_\_\_

Number of bedrooms? \_\_\_\_\_ Number of bathrooms? \_\_\_\_\_

Location (cities/areas): \_\_\_\_\_

What features of prior homes were your favorites - that you might want to keep?

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What features of prior homes did you dislike - that you wouldn't want again?

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1



ELITE

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## INSTRUCTIONS

For items that are NEEDS, put an X or in the need column.

For items that are WANTS, rank them from 1 to 10, with 1 being not very important and 10 being very important.

If something is not important to you at all, leave both columns blank.

	Need	Want
<b>Location:</b>		
Close to Parks	_____	_____
Close to Work	_____	_____
Close to Public Transportation	_____	_____
Close to Friends/Family	_____	_____
Close to Highways	_____	_____
Close to Schools	_____	_____
Close to Shopping	_____	_____

<b>Type of Neighborhood:</b>		
Waterfront	_____	_____
Gated Community	_____	_____
Golf Course	_____	_____
Planned Community	_____	_____

<b>Property Type:</b>		
Townhouse	_____	_____
Condominium	_____	_____
Split Floor Plan	_____	_____
One Story	_____	_____
Two Story	_____	_____
Homeowner Association	_____	_____
New Construction	_____	_____
Lot Size	_____	_____

<b>Exterior:</b>		
Brick	_____	_____
Stone	_____	_____
Siding	_____	_____
Swimming Pool	_____	_____

	Need	Want
Sprinkler System	_____	_____
Fenced Back Yard	_____	_____
Landscaping	_____	_____
Entertainment/BBQ Area	_____	_____
Hot Tub/Spa	_____	_____
Outdoor Dining Area	_____	_____
Outdoor Storage	_____	_____

<b>Interior:</b>		
Family Room/Den	_____	_____
Game/Media Room	_____	_____
Formal Living Room	_____	_____
Breakfast Area	_____	_____
Kitchen Island	_____	_____
Modern Kitchen	_____	_____
Formal Dining Room	_____	_____
Office	_____	_____
Walk-In Closet	_____	_____
Fireplace	_____	_____
Luxury Master Bath	_____	_____
Basement	_____	_____
Laundry Room	_____	_____
Open Floor Plan	_____	_____
Workshop	_____	_____
Multi-Car Garage	_____	_____
Wood Floors	_____	_____
Tile Floors	_____	_____
Carpeting	_____	_____

<b>Home Systems:</b>		
Gas Appliances	_____	_____
Electrical Appliances	_____	_____
Dishwasher	_____	_____
Gas Heat	_____	_____
Electric Heat	_____	_____
Heat Pump	_____	_____
Eco Friendly Systems	_____	_____
Alarm System	_____	_____

**Other:** \_\_\_\_\_  
\_\_\_\_\_



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## Financing Concerns

Most homebuyers find that they need to finance at least part of their home purchase. Therefore, the first stage in finding the right home is to review your personal financial situation and make an informed estimate of your true purchasing power. Your purchasing power will depend on:

- \*Your Income
- \*Your Credit Rating
- \*Other Monthly Expenses
- \*Your Down Payment
- \*Available Interest Rates

### How Much Home Can You Buy?

The next four steps discussed will help you review home financing and get you prepared to speak in detail with a lender.

#### Step 1: Make a rough estimate of how much home you can afford based on your income.

Here are two methods that will give you an approximate starting point for how much home you can afford.

#### Method 1: The price of your home should not be more than 2.5 times your annual salary.

<i>Annual Salary</i>	<i>Maximum Home Value</i>
\$60,000	\$150,000
\$80,000	\$200,000
\$100,000	\$250,000
\$120,000	\$300,000
\$140,000	\$350,000

#### Method 2: A house payment should be no more than 25% of your gross monthly income.

<i>Annual Salary</i>	<i>Gross Monthly Income</i>	<i>Maximum House Payment</i>
\$60,000	\$5000	\$1500
\$80,000	\$6667	\$2000
\$100,000	\$8333	\$2500
\$120,000	\$10,000	\$3000
\$140,000	\$11,667	\$3500



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## Step 2: Take A Close Look At Your Credit Report

Your credit history is one of the principle measures used by a lender to determine your interest rate. The better your credit, the better lending terms your bank or lending institution will be able to offer you. A higher interest rate translates into a higher monthly mortgage payment.

You should be aware of what information is on your credit report and can obtain and review copies of your credit report from the three main credit reporting agencies:

**Equifax**  
[www.equifax.com](http://www.equifax.com)  
1-888-766-0008

**TransUnion**  
[www.transunion.com](http://www.transunion.com)  
1-800-888-4213

**Experian**  
[www.experian.com](http://www.experian.com)  
1-888-397-3742

Remember that there are several factors that affect your credit report including your payment history, your current ratio of debt to income, and signs of responsibility and stability. Since not all creditors report to all three agencies, it's best to order a report from each of them. Make sure that all of the information on each report is accurate and correct.

If there are any discrepancies on your credit report, contact the rating agencies and have those records corrected immediately.

## How Does Your Credit Score Rate? \*Average Score is 678

<i>Exceptional</i>	<i>Above 780</i>
<i>Great</i>	<i>740-780</i>
<i>Good</i>	<i>690-740</i>
<i>Fair</i>	<i>620-690</i>
<i>Low</i>	<i>Below 620</i>



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4



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## Step 3: Gather the Documents/Take a Look at Your Assets and Monthly Expenses

Your lending institution will ask you to give a complete profile of your financial situation. In addition to your income, your existing assets and debts will help determine how much money you can borrow.

Below you will find a list of documents regarding your financial situation that you may be required to produce when you speak with a lender. You will need to provide this information for primary and co-borrowers.

- \*Social Security Number
- \*W2 Forms (past 2 years)
- \*Pay Stubs (most recent months)
- \*Employment History
- \*Bank Statements (past 3 months)
- \*Credit Information, including Debts like:
  - \*Student Loans
  - \*Auto Loans
  - \*Credit Cards
  - \*Child Support Payments
- \*Federal Tax Returns (past 2 years)
- \*Complete Record of Assets (below)
  - \*Stocks, Bonds, Investments
  - \*IRA/Retirement Plan
  - \*Life Insurance Policies
  - \*Automobiles Owned
  - \*Construction Loan
  - \*Gift Letters
  - \*Documentation of Other Income

Paying off car loans or credit card balances before you seek financing can save you thousands of dollars over the life of your mortgage. Also, avoid making any major purchase or changing your job if you are planning to buy a home in the next few months.

## Step 4: Talk to a Qualified Lender

A professional advisor will be able to give you information on the best rates and terms available in the current market and can also explain to you what options you have given your unique financial situation.

If you need a recommendation for a qualified lender, please let me know. I would be happy to give you a few recommendations.



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## Securing Financing

### Pre Qualification vs. Pre Approval

Pre-Qualification is only a loan agent's opinion that you'll be able to obtain financing. No verifications are made, so formal approval is not issued.

Pre-Approval means your loan application has been taken through rigorous procedure. Pre-approval saves you the time of looking at houses you can't afford.

Pre-approved buyers are ahead in the home buying game. If you make an offer on a home and then apply for a loan instead of the other way around, you are at the mercy of the lender who now knows that you don't have time to shop around.

A pre-approval letter from a lender will also give you an edge when multiple offers have been made on a house. Pre-approved buyers generally close escrow more quickly since most of the paperwork has already been taken care of.

### Mortgage Overview

When considering your financing options, you'll want to review many different things about the loans offered to you. In this next section, you'll find a basic overview of the home loan features and the things you should consider as you shop for a lender or loan.

### What Kind of Lender are you Borrowing From?

Home loans are available to consumers from commercial banks, mortgage companies, credit unions, and mortgage brokers.

A mortgage broker is unlike other lenders in that brokers do not lend money to you directly. A broker will help you find a lender and secure the terms of your agreement.

### Mortgage Broker vs. Traditional Lender

A broker may have access to several lenders and therefore can offer you a wider selection of loan products and terms. He or she can help you shop for the best deal based on your circumstances. A broker is not obligated to find you the best deal possible, so be sure to ask questions.

For their work, brokers are paid a fee in addition to the lender's origination fees. Brokers set their own compensation, so you'll need to ask anyone how their fees are determined.



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## What are the Terms of the Loan?

All the terms of a loan matter, not just the interest rate. You'll want to get a complete picture and break down of what a given offer means to you on a monthly basis as well as how much money you'll be spending over the life of the loan.

At a minimum, you should request quotes with a few different scenarios and compare the financial impact of each situation before you determine your best course of action.

## Loan Types / Rate Types

### Fixed Rate (Traditional) Loan

These loans are usually structured with repayment terms of 15, 20, or 30 years. The lender will agree to charge a fixed interest rate over the life of the loan. With this type of loan, your monthly mortgage payments will remain the same for the length of the term.

### Adjustable-Rate Loans (ARMs)

Also known as variable-rate loans, ARMs often offer a teaser rate for the initial period of the loan. This introductory interest rate is usually lower than rates offered for fixed rate mortgages. The interest rate will fluctuate over the life of the loan based on market conditions. Changes in rate happen at certain time periods, and the lender can set both a maximum and minimum on the rate fluctuation.

### Federal Housing Administration (FHA) Loans

Federal Housing Administration (FHA) insured loans are made by private lending institutions such as banks, savings & loans, or mortgage companies to eligible borrowers for the purchase of a home. To secure an FHA loan, a borrower must apply and qualify with a certified FHA Lender. Additionally, eligible borrowers must be able to pay a minimum of 3.5% of a home's purchase price. If the loan is approved, FHA will insure a portion of the loan's value to the lender.

### Veterans Administration (VA) Guaranteed Loans

VA Home loans are available to qualified veterans and their spouses. Private lending institutions issue the loans which are, in turn, guaranteed by the Veteran's Administration. The VA does not require any down payment on VA Guaranteed loans and allows the borrower to receive a competitive, fixed interest rate.



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7



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## Points

The lender or broker can charge you points on your mortgage. One point equals 1% of the loan amount. These are simply fees paid to the lender or broker that are often linked to the interest rate, and are usually paid in cash to the lender or broker at closing. A lender may offer you a lower interest rate, but charge more points, so it's important to compare offers.

## What Additional Fees will be Required in a Loan?

Most loans have additional fees. You can sometimes borrow the money needed to cover these fees, but that will increase the overall amount of debt you undertake. Some fees are paid up front and others are not do until closing.

## Loan Origination Fees

The institution that actually loans you the money will generally charge an origination fee for processing the loan. They are often expressed as a percentage of the amount of the loan.

## Underwriting Fees

Certain lenders will charge a fee to investigate your credit worthiness and determine if you are likely to replay your loan.

## Broker Fees

Typically paid at closing, a mortgage broker may charge you a fee in addition to the origination fee. If you are working with a broker, be sure to check what their fee is.

## Transaction / Settlement / Closing Costs

These fees lump together several charges for: application fees, title examination, abstract of title, title insurance, property survey fees, deed preparing fees, other mortgage fees and settlement document, attorney fees, recording fees, notary fees, appraisal fees, and credit report fees. The Real Estate Settlement Procedures Act requires that a lending institution provide a borrower with a good faith estimate of closing costs at the time of application. The estimate must list each expected cost as a range or as an exact amount where applicable.

## The Down Payment / Private Mortgage Insurance

The largest up front cost in purchasing a home is the downpayment. Most traditional lenders expect borrowers to put at least 20% of a loan's total amount down. Borrowers who are unable to do so are required to purchase **Private Mortgage Insurance (PMI)**. This insurance protects the lender in case of default by the borrower.



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## Interview Questions for Your Lender

1. What kind of loans do you offer?
2. What kind of loan would you recommend for me? What are the advantages and disadvantages of this loan structure?
3. What is the current mortgage interest rate? Is the rate quoted the lowest for that day or week?
4. What is the Annual Percentage Rate (APR) of an offered loan?
5. Is the loan rate adjustable or fixed?
6. What are the discount points and origination fees?
7. What are all the costs?
8. If the rate is adjustable, how will the rate and loan payment vary?
9. What are the qualifying guidelines for this loan?
10. What is the lender's required down payment for this loan?
11. What documents will need to be provided?
12. What are the closing costs?
13. Will the Lender guarantee the Good Faith Estimate (an estimate of the fees due at closing)?
14. Does the lender offer a loan rate lock (an agreement to lock the loan rate at the current market rate to protect the buyer from interest rate movement)? Is there a fee for the rate lock?



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## House Hunting

Home shopping can be both exciting and exhausting, but doing some preparation before you hit the road to look at homes will help out tremendously.

Chances are you've already started your search online. I would recommend you look at:

[www.realtor.com](http://www.realtor.com)   [www.homesnap.com](http://www.homesnap.com)

When you find a listing online that interests you, please e-mail it to me at [BethanyKelleyRealtor@gmail.com](mailto:BethanyKelleyRealtor@gmail.com). That way I can set up an appointment for us to visit that home, if you'd like, and search for similar properties that may interest you.

### Tips to Keep in Mind When Home Shopping:

- \*Don't view too many properties in one day.
- \*Bring a notebook and pen and/or digital camera when looking.
- \*Keep a folder with the flyers and print outs on properties that we've viewed.
- \*When you find a property you like, visit it at different times of the day.
- \*Don't be put off by interior/cosmetic features - these can be changed!

### Questions to Research When You Find a Property You Like:

- \*When was the home built?
- \*How does the price compare to other houses in the neighborhood?
- \*What did the property sell for when the current owner purchased it and in what year?
- \*What are the annual property taxes?
- \*Is there a home warranty on the property?
- \*How much exterior maintenance will be required?
- \*Do the appliances convey?
- \*What improvements has the homeowner made to the property?
- \*What is the age and condition of the major systems in the home?
- \*What type of fuel is used for heating the home?
- \*Are there any major repairs (not cosmetic) that will need to be made right away?



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## Making An Offer

Once you've found the right house for you, it's time to make an offer. As your agent, I will draw up a contract with your offering price and the necessary contingencies.

You will want to review this document carefully and make sure it states your terms exactly. If the offer is accepted by the seller, this contract will become a legally binding agreement.

In addition to an offer contract, you will need to provide *earnest money* as well as a letter from your lender indicating your qualification to purchase the house.

*Earnest money* is a deposit made to a seller showing the buyer's good faith in a transaction. It typically equals between 1% and 3% of the property purchase price. You will not risk losing your earnest money as long as you do not default on your contract. The earnest money amount will be credited towards the purchase price of the house at closing.

After you've made your offer, the Seller will be able to accept it, reject it, or make a counter offer. In most cases, a seller will not accept your initial offer outright. Typical counter offers include modifications to any of the following: purchasing price, closing date, possession date, and/or inclusions.

When you make an offer on a house, you should be prepared for the negotiations to go back and forth for several times before both parties agree to the terms. You may also have to compete with other interested buyers in certain market conditions.

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



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## After Your Offer is Accepted

### Step 1: Buy with Confidence

#### Home Inspection

As the buyer, you have the opportunity to hire a professional inspector to evaluate the condition of the home. An inspection clause is included in the written contract given to the seller. The goal of a home inspection is to give you an objective, independent and comprehensive analysis of the physical conditions of your potential new home and check for any safety issues that might otherwise be unknown.

A professional inspector will check on the structure, construction, and mechanical systems of the house. This usually includes checking:

Electrical Systems	Ventilation	Foundation	Floors
Plumbing	HVAC System	Doors	Roof
Disposal	Water Quality	Windows	Radon Gas
Water Heater	Waste Disposal	Ceilings	Asbestos
Insulation	Pests	Walls	Lead Paint

You will receive a written report of the inspection and an estimate of the cost of any and all repairs. It is best to be present during the home inspection so you can ask your inspector about unique features of the property and get his or her opinion on the necessary maintenance and upkeep needed for your new home.

Depending on the results of the inspection, you will have the opportunity to:

- \*Get out of the written offer if major problems are discovered.
- \*Renegotiate the purchase price to account for necessary repairs.
- \*Negotiate that repairs are made by the seller before final purchase of the property.

Please ask me if you would like a recommendation for a reputable home inspector.

#### Property Survey

Your lender will require that a legal land survey be completed for any property on which they issue a mortgage so that they can obtain a clear lender's title insurance policy.

A surveyor will determine whether the house is within the property borders, whether there are any encroachments on the property by neighbors, and the extent to which any easements on the property may affect legal title.

The survey will also let you know exactly where the property lines are and will let you know if there are any building restrictions that could prevent you from adding new features to your property, like a fence. The amount of detail provided in a surveyor's report depends on the kind of survey you ask for and will be priced accordingly.



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## Step 2: Clearing The Home Title

The “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 the contract with the settler.

Some “clouds on title” can be corrected relatively easily while others can become quite complicated to remove. If title problems are uncovered, it is important for you to understand your legal rights.

### 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 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. It is different than casualty insurance in that you pay a one-time fee and it protects against past (as opposed to future) events. *Title insurance will protect you against title defects that were not discovered in the course of the title search. If such a defect were discovered later, your title insurance would cover 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 your home.

## Step 3: Getting an 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 the property made by a qualified professional. The appraisal of your prospective home is as important as your credit history in obtaining a mortgage. After all, the property you are purchasing serves as the collateral for the loan.

Although the primary goal of the appraisal is to justify the lender’s investment, it also protects you from overpaying for a property. Your lender will generally hire the appraiser and will charge you as the buyer a fee for the service. If the appraisal falls short of the amount you wish to borrow, you may be refused a mortgage or offered a smaller amount on the mortgage. Your offer contract will be contingent on whether the appraisal comes in at or above the purchase price you and the seller have agreed upon.



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## Step 4: Closing

Once all the preparation is complete, it's time for the closing. *Closing is the legal transfer of ownership of the home from the seller to the 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 need to:

- \*Obtain a homeowner's insurance policy and provide this information to your lender and/or closing agent.
- \*Review the Settlement Statement or Closing Documents (formerly known as the HUD-1) that your lender or closing agent will provide you at least 3 days before closing. 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.
- \*Verify with your lender and/or closing agent any other items that you need to bring with you such as a valid driver's license or other form of identification.
- \*Conduct a walk-through of the property prior to closing. This will give you an opportunity to see that the condition of the house is the same as it was at the sign of contact. Additionally, you will be able to ensure that any repairs agreed to by the seller, based on inspection, have been completed.

Now it's time to enjoy your new home!



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14

