

First Time Buyer

If this is your first time buying a home, there are many challenges facing you. A basic understanding of the process will help you decide how you would like to proceed, and whether you are “ready” to own a home.

I have sold homes to people in their 30’s who really were not ready to own, and I have sold homes to 20 year old single women who knew exactly what they wanted. Neither had any idea that the home buying process was complex.

When most first-time buyers decide they are ready, it is often because they have fallen in with the romanticism of owning their own home, and usually not because it is the right decision for them at the time. It often turns out to be a reasonable, if not a pretty good, decision, though.

There are many benefits of owning a home instead of renting. Mainly, it allows you to start building equity and taking advantage of the appreciating real estate market. Sort of an enforced savings account, if you will. It is a pretty good investment, at that. Nationally, home prices have not declined since the great depression. (There are, of course, smaller markets which have had their ups and downs) But, as with any investment, there will probably be periods of gains and periods of losses. Over time, though, home ownership is a big winner. See my related article, “Should I Rent or Own?” for a comparison of the costs and benefits of the two.

Having decided to buy a home, there are two immediate things to think about. If remotely possible, I recommend first-time buyers get into a new home rather than a resale home. This is because the price of the new home is generally fixed the day you sign the contract, but the home will not be ready for almost a year; so there is already a year’s worth of appreciation on move-in day. Secondly, the lenders that work with the new home buyers are tied in with the builders, and they are motivated to get you the loan and will often find a way to get you to qualify in the face of poor credit.

But let’s talk generically about buying a home. The first thing you will want to do (and this is whether you decide to buy a new home or a resale home) is to sit down with a lender and see what your credit score looks like, and determine from analyzing your income and obligations the amount you can reasonably expect to spend without crippling your lifestyle.

A good lender will sit down with you and explain all this, and then look at your credit score. Your score is a number that credit agencies calculate based on many factors, including how many credit cards you own, whether there have been any late payments, how much of the credit on the card you are using, and many other factors. They will know about your car loan, about the check you bounced in Las Vegas last year, and even about some guy you never heard of

with the same name. If your credit score is not what you expect, it is important to work with the credit companies and correct any errors found in your files.

Your credit score, more than any other item, controls the cost of your loan. If you appear to be a poor credit risk, your score will be low and your interest rate high; A good credit score will provide you entry to the best, lowest cost loans.

It is important to go to a lender very early in the buying process. In Arizona, when you make an offer on a home using the standard Association of Realtors contracts, you are required to attach something called a Loan Status Report to the offer. This report indicates to the seller that you have talked with a mortgage professional and that they have determined that you will be able to pay for the home.

When buying a new home, the Loan Status Report is not required; but by talking to a mortgage professional, you will understand better what you can afford – and sometimes, an outside lender can find you a better deal than the builder's lender – even considering all the frills builders will throw in when you use their “preferred lender”! If nothing else, it gives you leverage when you talk with them. Always try to negotiate.

If you buy a new home, then you will have a chance to pick options, go to a design center to figure out what cabinets and countertops you would like, carpet style and color, landscaping, and a million other things. But the builders pretty much take you through the process, and there isn't anything magic about it.

Should you use a Realtor when you buy a new home? Probably. It isn't strictly required, but it won't cost you anything, either. The builder's agent basically just fills out paperwork and takes your money, and the builder's lender gets you qualified.

Without your own Realtor, you don't really have any representation should something unusual happen. In one case where I represented a new home buyer, I was able to negotiate a return of the buyer's non-refundable deposit because of some exigent circumstances. They would not have been able to do it without buyer's representation. I'm not saying that if you want out of a new home contract that I'll be able to get your deposit back – in fact I doubt that I could. But at least you would have someone who would try.

And, you'll have someone who can negotiate with the lender on rates and such, and who can help you with any matters that might come up, such as title or escrow, or the discovery of the pig farm next door.

Using a Realtor as your agent when you buy a home, new or resale, costs you nothing. The industry is set up so that the seller of the home pays all the real estate agents involved in the transaction. So except in the case of a “For Sale By

Owner”, your Realtor will get paid by the seller. And, any Realtor worth their salt will still help you if you run across a “For Sale By Owner” and want to see it. Mind you, we would appreciate it if you just wrote down the phone number and then let us try to negotiate something with them first! After all, we don’t just love to work for free – but of course we would still help you with the buying process, regardless.

Okay – so you have decided to buy a resale home, and you already talked to a lender and know what you can afford. What next?

There are many ways to find homes for sale. Many people just drive around the areas they like and look at open houses. This is sort of a “shotgun” approach, and you’ll look at lots of homes you love but can’t afford, and lots that you can afford but wouldn’t want.

Another good way is to look on the internet. There are probably 10,000 sites where you can search for homes for sale. However, these web searches are limited in how complex a search you can make, but are very valuable in that they will give you a good idea of what sort of home is in your price range, and what areas you can expect to find.

What I would prefer, however, is to have a 30 minute conversation with you to find out what you really want, and where you want to be. Then I can set up a personalized search for you to pull homes that are very close to what you want, even to bedroom dimensions or whether or not they have a guest house (something not easy to search for explicitly!)

I normally set up a search and pull 8-10 homes, then take you to see them. From this first showing, I get an excellent idea of what you want. Then, I can narrow the search a bit, and usually home right in on what you really want. The next time we go out, I’ll be showing you just a few hand-picked homes. With a little luck, you’ll see just the right one. Of course, some people are easy and some are picky, so this process can take one day or a year! And, it depends on the market.

Market conditions during the summer of 2005 were interesting, to say the least. There were few homes on the market and many buyers. I wrote more than 12 contracts before finding one of my buyers a home! In a seller’s market, such as that one, you have to be able to look at a home and make an offer *right then*. Because there are 20 people right behind you who also want it. The average time it took to sell houses was less than a week in some price ranges. The Multiple Listing Service changed the updates from once a day to three times a day to try and provide timely information to buyers.

Today we are in a little calmer market, you have some time to decide what to do. Typically, when you see a home you like, we write an offer. The offer is a

contract; with a few exceptions, if the offer is accepted, it is a binding contract for you to buy the home, and the seller to sell it.

The offer details the price you are willing to pay, how much you are putting down vs. how much you are borrowing, the amount of earnest money, when you would like to close escrow (ie. when do you own the home), and other things.

Earnest money is a consideration offered to the seller to show that you are serious about buying his property. Typically, it is 1% of the purchase price, although in higher end properties it is sometimes more; and in rural areas it is often less! But, it is an amount of money which gives the seller some assurance that you plan to follow through on the contract. If you decide not to complete the purchase (except in certain cases), your earnest money is forfeit to the seller.

When you write an offer on a property, there is often a negotiation which occurs. You offer X, the seller wants more than X, but agrees to vacate sooner, or offers to leave the washer and dryer – you get the idea. I'll help you through this period, having seen many offers and counter offers, I have a pretty good idea of what is reasonable and what is not.

Once your offer is accepted, you will need to deposit your earnest money with an escrow (not *escort*) service. Most title insurance companies also provide escrow services as part of the package. We'll talk more about title insurance in a moment. From contract acceptance, you have 24 business hours to deposit the earnest money. These funds are not lost, they will become part of your down payment. Another clock starts running. You have a specified amount of time, called the Inspection Period, to perform whatever inspections you wish to make sure that the home is acceptable to you.

The seller will immediately provide you with a statement describing everything they know about the home in terms of possible defects or information which would otherwise prevent you from buying the home. This includes whether they ever had a roof leak, whether it uses a septic system or a sewer, who the electricity provider is, whether there is a well or city water, if the foundation cracked – in short, anything that might be of interest to you that materially affects your buying decision (almost).

There are a bunch of things they do not have to reveal, such as whether someone lived there who had AIDS, or if a sex offender lives next door – there are a bunch of exclusions in the law about what must be revealed. It doesn't make sense to me, either, but that's how it is. Of course, if they think the house is *haunted* then they have to tell you.

The inspection period is negotiable, but usually lasts 10 days. During this period, you may change your mind about buying the house *for any reason* and still get your earnest money back. This might be that you consulted a spiritual advisor

and they told you the house faced the wrong way or that the color of one of the closets was wrong. Any reason. There has to *be* a reason, but it can be anything.

Often, contracts stipulate that the earnest money becomes non-refundable at the end of the inspection period. That is, if you decide you want the house, then you better buy it. You get a 10-day free look, after that it costs.

Normally, you can still get your money back for a couple of reasons: If the house does not appraise for the purchase price. Usually they do – if you have a decent Realtor! I won't generally let my clients pay too much for a home. And, while I'm not an appraiser, I can usually get pretty close to the right price. Also, if in spite of your best efforts, something befalls you financially and you are unable to get a loan, then you can get your earnest money back. These are called the appraisal contingency and the loan contingency, and are a standard part of the contract.

During the Inspection Period, you may have found some items that trouble you, such as a broken window, leaking faucet, or hole in the garage wall. You can ask the seller to repair these things on a form called the Buyer's Inspection Notice and Seller's Response. This is the same form you use to tell the seller you want to cancel because of the closet color, but rather than canceling, you are asking for the seller to make some repairs.

Sellers will usually make repairs, they know that even if you do not buy their home, someone else will, and that buyer will probably want the same repairs. Sometimes, though, the sellers have a back-up offer, an offer from another buyer, at a higher price and will refuse to make any repairs, hoping that you will go away so they can get the extra \$5,000 from the other buyer. Your Realtor should be able to advise you.

When you get the seller's response about your requests, they will either agree to all, some, or none of the repairs. At this point you can still reject the home and get your earnest money back.

During the inspection period, you can make whatever inspections you like. I always try to get my clients to use an inspector, someone licensed and certified by the State, to perform the inspection. I have a few I like, but it is really your choice. Inspectors charge \$300-\$400 or so, and they do an excellent job of finding out what works and what doesn't.

They fill all the sinks with water and see if anything leaks; they run the dishwasher and ovens, the A/C and heat, and even make sure all the commodes are secured to the floor properly. I still hire inspectors when I buy my own personal property – they are very thorough and worth the price.

I also ask the home inspector to perform the termite inspection. You **MUST** have a termite inspection! I just don't like to ask termite companies to perform the

inspection because they have a vested interest in finding termites. The seller, of course, pays for termite treatment anyway – but I hate wasting anyone’s money.

While all this is going on, you’ll have some work to do. Your lender will have sent out a loan application, along with a letter in which they will ask you for certain things, such as the last two months bank statements, statements from any brokerage accounts you might have, tax returns – generally a bunch of financial information which you probably already discussed with them, but now you have to provide written evidence.

Your lender will then take all that information and send it to underwriting. A typical lender will have hundreds of loan programs to choose from, and many different providers. GMAC, Wells Fargo, BOA, insurance companies – there are many, many actual lenders. Your mortgage professional is most likely a mortgage broker – just as I am a real estate broker – and like me, they work on commission. They will try and find the best loan package at the lowest rate to fit your needs. Generally they are paid by the actual lender, although some may also charge a loan origination fee.

The lender I recommend does not charge an origination fee, and this is unusual but is because he does not work on commission! You should always get quotes from several lenders to make sure you are getting the best “deal”.

In any case, the underwriter is the person at the actual lending institution (as opposed to your mortgage professional or loan officer) who looks over your info and decides that they will make you the loan. Almost always, the information provided to the underwriter is fine, because your mortgage professional will have inspected it and made sure that it meets all the requirements for the loan. If there are any problems, it is generally due to a small oversight which can be corrected easily.

Once the underwriter has approved the loan, your mortgage professional will obtain the final approval documents which you must sign to get the loan, and they will approve the loan to be funded. At this point, you can go to the title company (escrow company) and “sign”. Before you do though, you should go with your Realtor and do a final walkthrough to make sure no one has vandalized the home. Most brokers require it!

When real estate changes hands in Arizona and many other states, a new deed is recorded at the county recorder’s office. To make sure that the deed is good, a title insurance policy is issued. There are two types of title policy; there is the cheap one that doesn’t cover many problems, and there is the expensive one that covers a few more. Essentially, the seller generally buys you the cheaper title policy, and you get to buy your lender the expensive title policy.

This is because the lender wants all the protection he can get – since the home is his collateral for the loan! A description of the various title policies is beyond the scope of this article, but your title company is always happy to provide this info.

In Arizona, there really is no mortgage, per se; rather, the loan is provided using something called a deed of trust. All the documents you sign at closing involve the creation of the deed of trust. It effectively gives the bank a faster way to foreclose on your property should you default, than a typical mortgage would.

Once you have signed all the papers, the documents are sent to the county to record. The transaction is not complete until the recorder's office receives them. Signed, Sealed (notarized) and Delivered, that's where it comes from. Once completed, you own the property and are free to move in ... except:

Sometimes, there are agreements made part of the contract involving a renter who is still in the property, and who has a rental agreement that does not expire for a few more weeks – And, sometimes you can get the seller to give you a pre-possession agreement where you can rent the home from them until closing. Other times they may want to stay an extra week, and they will pay you rent! I don't recommend either of these, there is just too much potential for problems to arise. It is best to keep things simple.

I know this has been quite a lot of information, but trust me when I say that it only just scratches the surface. It is probably more than most people know even after buying their first home, but I consider it a bare minimum of knowledge. After all, your home purchase is probably the largest and most important investment you have yet made!