



## Compliments of:

### Lakeshore Title Agency

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## Buyer's Corner

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**Congratulations! You have decided to make your dream of owning a home into a reality.**

You are going to embark on a journey toward the American dream of becoming the owner of your own home. As with any journey toward a prized goal, you may encounter problems along the way. Stewart Title is here to help you leap the hurdles, navigate the obstacles or smooth the snags that might impede your journey.

Before you begin, let's look at some important issues that will provide you with the answers and the steps that will make your journey a pleasant and rewarding experience.

- How much home can you reasonably afford?
- Choosing the best real estate agent for you
- Selecting the most advantageous mortgage lender
- Choosing the right mortgage
- What is an FHA Loan?
- Finding the perfect home
- Making the Offer
- Closing the Deal

## How much home can you reasonably afford?

Before you begin the search for your dream home, decide how much you can comfortably spend. Mortgage lenders most often will take into consideration all of the following:

- The size of your down payment
- Your job stability
- Existing debts
- Credit references and,
- Payment history.
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- Knowing your credit status and how credit agencies rate your credit also may be a deciding factor, especially when you begin talking to lenders. There are three main credit-reporting agencies that will, for a small fee, send you the most current credit report on file.
- [Experian](#)
- 1888-EXPERIAN (397-3742)
- [Equifax](#)
- 1800-997-2493
- [Trans Union](#)
- 1-216-779-2378

Lenders usually use the following two qualifying guidelines to decide how much of a loan you can manage:

- Your monthly housing expenses - mortgage payment, property taxes, insurance, etc. These expenses should total no more than 28 percent of your monthly gross income.
- Your monthly living expenses and any long-term debts - utilities, car and school loan, child support, health and car insurance, etc. These expenses should be no more than 36 percent of your monthly gross income.

## Choosing the best real estate agent for you

Once you've assessed your spending qualifications, you will need to find a real estate professional. As with any major journey, you need a capable, competent guide, one who clearly is able to lead you through the steps that ultimately will bring you to your final destination - your new home.

Choose an agent with whom you feel comfortable. One who is responsive to your needs and the needs of your family, one who compliments your personality, and one who is prepared to be with you throughout each step of the home-buying process.

A few simple guidelines for finding the 'right' agent are:

- If you already know the neighborhood in which you would like to live, find an agent within that community.
- Seek an experienced agent with a known reputation - look at credentials, track records and awards received.
- Seek someone who is a member of the Board of Realtors®.
- Find someone who is continuing their education - a Certified Residential Specialist (CRS), Certified Residential Broker (CRB), a graduate of the Realtors Institute (GRI) or an Accredited Buyer's Representative (ABR) - this shows the realtor is interested in the business long-term and is willing to invest in their career.
- Seek referrals from your family and/or friends.
- Interview at least three agents before you make your final decision.

If you are being referred to an agent, here are some questions you will want to ask about him or her:

- What were they like to deal with?
- How hard did they work for you?
- Did they get you a good price?
- Were there any complications?
- Did they always tell you the truth?
- Were they always looking out for you or just interested in getting paid?
- Would you use their services again?

You've narrowed your choices to the top three professionals. It's time to make the final decision on who will be your guide. Ask these questions of your three finalists:

- How many buyers have you successfully represented in the last six months?
- Can I have the names and phone numbers of three to six of your most recent buyer clients?
- Do you deal mostly with homebuyers or primarily with home sellers?
- What professional designations do you have?
- Are you fully automated with your own personal computer, FAX machine, copier, pager, voice mail, etc?
- What is your commission? Or do you have hourly rates or a set fee?
- Do you have a list of home inspectors, insurance agents and reputable lenders for me to consider?
- What clauses will be included in our offer to protect us as buyers?
- Will you try to sell me one of your listed properties before you show me listings from other real estate companies?
- Do you have information about For Sale By Owner properties?
- How will you help me save money?
- How will you protect my interests, and why should I hire you rather than another agent?

Now, here are some questions to ask yourself after the final interview of real estate agents. The answers to the following questions will increase your chances of choosing the best real estate agent for you and your family.

- Which one returned your phone calls?
- Which one asked questions to determine what you want/need in a home?
- Which one performed a financial analysis to determine how much you can afford?
- Which one suggested financing methods?
- Which one seemed most knowledgeable about the community?
- Which one explained things most clearly? Which one did YOU feel most comfortable with?

Keep in mind, home buyers - you - need to search for a realtor the same way that home sellers do.

You see, there are two "sides" to every sale. The seller's side is represented by the listing agent. The buyer's side is represented by the selling agent. The selling agent also is referred to as the buyer's agent. Usually, real estate commissions are paid by the seller. For this reason, the selling agent, although representing the buyer, has certain duties to the seller. If you, as the homebuyer, want to have a real estate agent represent only your interests, you will need to hire and pay commission to your own real estate agent.

These real estate agents are generally referred to as buyer's agents. If you call on a single classified advertisement in a newspaper, an ad in a home selling magazines or a listing on the Internet, you most likely are calling the listing agent.

## Selecting the most advantageous mortgage lender

With your realtor chosen, you now have someone who can guide you through the process of securing a mortgage lender. Your agent will help you understand and choose the type of lender that best fits your financial needs.

Each lender is different, so be sure to choose one that will work with you and your specific circumstances. Shop for lenders offering the best deals. Check with several mortgage companies and use one or more reporting services. If there isn't a reporting service covering your area, begin the search at your own bank or savings and loan or through any of the following sources:

### Independent Mortgage Companies:

Make just over half of all home mortgages, including most VA-guaranteed and FHA-insured loans.

### Savings Institutions:

Savings and loan associations and savings banks originate close to a quarter of home mortgages. Most are conventional loans - those not guaranteed by the VA or FmHA, or insured by the FHA.

### Commercial Banks:

Active in residential lending. Banks also are a major supplier of loans for mobile-home buyers.

### Mortgage Brokers:

Act as intermediaries. A broker keeps tabs on the mortgage market through ties to local, regional and national lenders, and can refer a prospective borrower to a mortgage banker, savings institution or a commercial bank. Brokers don't lend money and can't approve loans.

### Credit Unions:

Make close to one-third of all first-mortgage loans, but you must be a member. Public Agencies: State and local finance agencies make below-market-rate financing available to eligible low- and moderate-income first-time buyers through the sale of tax-exempt bonds.

Employers and Unions:

Don't overlook your employer as a source of assistance. An employer may subsidize the interest or even act as a lender. Unions are another possibility. The AFL-CIO offers what it calls "Union Privilege." Unions that sign on can make first-time home loans available to eligible members for as little as three percent down.

Again, remember, your realtor should be able to provide a great deal of assistance in finding just the right lender. The following directory also will help you locate a lender right for you.

## Choosing the right mortgage

The next step in your journey is choosing the right type of mortgage for your individual financial needs. While there are some people who can and do pay cash for a new home, most are like you, and this is where your lender's skills and knowledge will take effect.

Pre-qualifying before house hunting puts you ahead of the game. Your research into how much home you can afford has provided you with the knowledge of already knowing the standard of mortgages for which you qualify. Quite simply, you are shopping for a loan from a mortgage lender.

First, review the major kinds of mortgages you may encounter. The following list contains the mortgages you are most likely to see. Again, ask questions; your lender will be happy to explain each type of loan arrangement and satisfy all your concerns.

### **Fixed-Rate Mortgage (FRM)**

This is the standard mortgage model. It is the oldest and most easily understood type of mortgage. Its primary attraction is that the interest rate and the amount of payment remain fixed for the life of the loan, typically either 15 or 30 years. However, if rates fall, the holder cannot benefit from the new, lower rate except by refinancing.

### **Adjustable-Rate Mortgage (ARM)**

With this kind of mortgage, the interest rate you pay rises and falls along with other rates charged throughout the economy. Therefore, you, the borrower, assume the risk of rising rates, and you stand to benefit should rates fall. An essential question to ask about an ARM is whether there are limits on how much your rate can be raised, both at each review and over the whole term of the loan. Without limits, known as "caps," you'll have no way to predict how much your rate (and thus your monthly payments) might change.

### **Convertible Option**

FRM and ARM represent the primary options available to homebuyers today. The convertible mortgage represents something of a compromise between the two. It is designed for those who want the advantages of the ARM, but also want to limit the risk of rising rates. Under this arrangement, the buyer starts out with an ARM, but has the option of converting to an FRM at specified points during the loan term. You may want to ask the lender these questions: When can you convert? How often can you consider the option? Are there any up-front fees involved? Will you have to pay more for an ARM with the conversion feature than for an ARM without it? Are there additional fees due if and when you decide to convert? Find out the lender's conversion rate. Graduated Payment Mortgage (GPM) A fixed-rate GPM starts out with low payments, usually below that of a fixed-rate and possibly that of an ARM, but rise gradually (usually over five to ten years), then level off for the remaining years of the loan.

### **Growing-Equity Mortgage (GEM)**

This option is designed for borrowers who want to pay off their mortgage as soon as possible. Therefore, the interest rate remains fixed, but the amount of the monthly payment increases according to a prearranged schedule, with the higher payments going to reduce the principal balance. This mortgage can be appealing to someone who is expecting regular income growth and wants to build equity quickly. Fifteen-Year Mortgage like the GEM, the fifteen-year mortgage enables borrowers to repay their loan more quickly, which means they build equity faster and pay less interest over the life of the mortgage.

### **Biweekly Mortgage**

Another option for people who want to repay their loans sooner is the biweekly mortgage. Instead of making a single mortgage payment each month, borrowers who choose this option make two equal payments monthly.

### **Federal Housing Administration Insured Loans (FHA)**

FHA, also known as the Federal Housing Administration, operates under the control of the Department of Housing and Urban Development (HUD) and has the primary responsibility for administering the government home loan insurance program. This program allows buyers who might otherwise not qualify for a home loan to obtain one because the risk is removed from the lender by FHA.

## What is an FHA Loan?

In 1937, under an act of Congress, the Federal Housing Administration was established to provide American families with a unique opportunity to become homeowners. Formerly, a homebuyer's options were limited only to short term loans ranging from one to five years in term. Borrowers had to put as much as 40 to 50 percent down on the property and pay off the entire loan balance by the end of the term. FHA revolutionized the mortgage industry at the time by offering the 30-year mortgage and made the possibility of home ownership available to Americans nationwide. Throughout the years, a variety of programs have spawned from this revolution to make that American dream of home ownership easier, more affordable and attainable to Americans.

There are several notable FHA home loan programs available.

- Standard fixed rate (FHA 203b)
- FHA adjustable rate mortgage (FHA 251)
- FHA 2-1 buydown (FHA 203b, FHA 251)
- Energy Efficient Mortgages Program

## Payment Problems

Should one fail to pay, FHA insures mortgage loans made by approved lending institutions. The FHA insures a variety of mortgages, including FRMs, ARMs, GEMs and GPMs. Down payments are low - 5 percent or less. The FHA doesn't set the interest rate on loans it insures, so you'll need to shop around for the best rate.

The FHA limits the amount it will insure to whichever is less: 95 percent of the local average home price or 75 percent of the loan limit set by the Federal Home Loan Mortgage Corporation, a large buyer and reseller of mortgages.

## Veterans Administration Guaranteed Loans (VA)

VA loans have most of the advantages of FHA loans, and then some, but they also have eligibility restrictions. They are available only to veterans of the armed services, those currently in the service and their spouses. VA loans are typically half a percent or more below market rates, and they can be obtained with no money down.



## Finding the perfect home

You are now ready and armed with your pre-qualification or pre-approval to find the home of your dreams. Your journey has brought you this far and now your real estate agent will provide you with as many homes as you care to see.

However, do you know what kind of home you are looking for? Do you know what neighborhood in which you wish to live? What kind of schools will your children be attending? Is shopping important to you or are you looking for that home on the golf course or near the water? Would you be comfortable in a condominium, a townhouse or even a pre-fabricated home? All these questions and more regarding amenities and specific features will be among those your real estate agent will ask. She will be much more capable of finding the right home for you if she knows as much about your requirements, needs and desires as possible.

To help your real estate agent with this process, make three lists - a need list, a do-not-want list and a dream list. Factor in your current housing needs, likes, dislikes and possible future changes in your life and lifestyle, such as more children, less children, parents moving in or out and other major life changing factors.

Your needs list may include:

- Number of bedrooms
- Number of bathrooms
- Bath in the master bedroom
- Separate dining room
- Garage
- Basement

While your do-not-want list may include:

- Small bathrooms
- No counter space
- No windows in kitchen/bathroom
- Tiny yard
- Insufficient closet space
- No garage

For your dream list, write down all of the features you would love to have in your home, which may include:

- Fireplace
- Swimming pool with Jacuzzi
- Greenhouse
- Breakfast nook
- Two stories
- Skylights

## Making the Offer

You may already have an idea of where you want to live, but if you don't, here are few things to think about:

- Look at the surrounding houses in the neighborhood. Are the homes and yards well kept? The condition of these homes will affect the value of the home you buy.
- Is it visually appealing? Explore the lot thoroughly. Does it offer adequate privacy? Will you maintain the ground or hire someone? Do you like the landscaping or would you design your own? When looking into the back yard, are you greeted with the sight of a transformer, radio broadcasting tower, gas station, bus stop or ball field where night games are played?
- What kind of area is it in? How close are shopping facilities, banks, churches, hospitals, schools, parks and movie theatres? And, of course you'll want to know what, if any, crime rate is associated with the neighborhood. Go to the local police station and ask for records of robberies, break-ins, vandalism, assaults and drug-related problems in the neighborhood. Is crime increasing or decreasing?
- What is the traffic like and how will it affect your commute to and from work? Heavy traffic also produces noise and air pollution.
- Is the home in an area that floods when it rains. How fast does the water drain from the streets and yard? Slope and the soil's ability to absorb water will determine where and how fast water drains away from the house. You can check out local flood information through [Stewart's Flood Information Division](#) to find out if the house is in a flood plain.

Whatever you do, don't be afraid to ask questions. Your real estate agent will be very happy to provide you with as much information as possible. Remember, this is potentially the largest purchase you will ever make - ask questions until you are satisfied with the answers.

Here are a few other things you will want to consider in the selection of your dream home:

- Don't fall in love with the first home you see. New listings come onto the market all the time. The best deal may still be 'just around the corner'. The more homes you see, the more you'll learn about what you want and what each house has to offer.
- Don't choose a house because you like the interior decorating - a well furnished home isn't always the most structurally sound. Check out the actual structure of the home. Keep in mind, the furnishings will be leaving with the current owner.
- Go through the house with a fine-tooth comb. Open cabinets, turn on every switch, notice details, move furniture away from the walls, look in the attic, turn on faucets and flush the commodes. Look for water spots on walls and ceilings - you don't want to find out after you've bought the house that the roof is leaking.
- Don't be pushed into making a selection. Make your decision only when you've seen enough to pick the best one

## Closing the Deal

You've finally found the home of your dreams. You're ready to put your money where your mouth is - but wait - before you sign on the dotted line, before you spend the money your lender has provided and before you start thinking about interior and exterior design, find out a few things first. Those things may help you negotiate a better, lower price than what the owner is asking.

Find out the selling prices of similar properties to use as a guideline to set your sales price. These comparable properties should:

- Have sold no more than six months earlier
- Be around the same age and condition
- Have close to the same number of bathrooms, bedrooms and square footage
- Be in a similar location and on a similar lot
- If you still don't feel comfortable setting a price, consider having a professional appraisal done. Appraisers look at what the home is worth today and how the neighborhood may affect future property value. They provide a realistic figure for the true market value of the property

Once you, your real estate agent and the owner have come to an agreement on the sale price of the house - Put it in Writing.

Don't reveal your strategy and don't make oral offers. You know you want this house, but don't hand over your money until you are sure the seller is legally capable of conveying a good title and meeting other conditions. Yet the seller doesn't want to surrender the deed until you've paid for the property.

## Now what?

With your real estate agent's assistance, offer the seller a written contract setting out the commitments and promises that you and the seller need to agree on and fulfill in order to make the sale. A well-drawn contract should protect all parties.

The first contract you submit should be comprehensive and include everything of any importance. Keep in mind, once the seller accepts the contract, it may be too late to add or change anything. In some states, there may be standard real estate contracts. However, you should make sure that your contract includes at least the following:

- The offering price
- Down payment
- Legal description of the property
- Method of conveying the title
- Fees to be paid and who will pay them
- Amount of deposit
- Conditions under which the seller and buyer can void the contract
- The settlement date
- Financing arrangements
- A list of appliances, furnishings and personal property being sold with the home



## Earnest Money

After you have come up with an offer price, the next step is to determine how large a deposit you want to make with your offer. You want the "earnest money deposit" to be large enough to show the seller you are serious, but not so large you are placing significant funds at risk.

One recommendation is to make sure your deposit is less than two percent of your offered price. The reason for this is that if your deposit is larger than that, the lender will pay particular attention to how you came up with the funds. You might have to provide a copy of a canceled check along with a bank statement showing you had the money to begin with. Normally, this is not a problem, but if you have a short escrow period or are barely coming up with your down payment, it could pose an inconvenience.

Another reason to limit your deposit is "just in case." Although significant problems are the exception and not the rule, they do occur. "Just in case" there is a nasty or prolonged dispute between you and the seller, the less money you have tied up in a deposit, the fewer funds you have placed at risk.

As with practically everything in real estate, there are exceptions to this rule, too. During a hot market, there may be multiple offers on the property that interests you. A large deposit may impress a seller enough so they will accept your offer instead of someone else's, even when your unknown competitor is offering the same price or slightly higher.

Since large deposits do impress sellers, you may also find that by making a large deposit you can convince the seller to accept a lower offer. More money up front may save you money later.

When it comes to buying your new home, everything is negotiable. Your real estate agent can be very helpful with this process. A partial list of what's negotiable when purchasing your new home may include:

- Price
- Financing
- Closing costs (except where specified by financing or law)
- Occupancy (When can you get the key and move in?)
- Painting (Will the seller repaint a portion of or the entire house?)
- Repairs (Will the seller repair the roof, plumbing, windows, etc., and what kind and quality of repairs will be made?)
- Yard (Will the seller remove unwanted trees, bushes - put in desired landscaping?)
- Fixtures (Which lights, fans, appliances, etc. stay and which go?)
- Wall coverings (Do the drapes stay or go?)
- Furniture (Will the seller include certain pieces?)
- Prepaid taxes and insurance (Will the seller credit you with these?)

Negotiation gives you - the buyer - incredible power in making a favorable transaction. As in any negotiation, be prepared to do some give and take. Let your real estate agent help you and work with you and the seller to come to the best possible terms for everyone.

As an added precaution, you also should have a professional inspector go through the house to look for potential problems. Even though you have made a complete walk-through, asked the right questions and discussed the offer with your real estate agent, a professional may see things that would be easy for you to overlook. Even if they are not things the seller is expected to repair, at least you will have foreknowledge of any potential problems.

Once you receive the inspection, you will want to allow yourself sufficient time to review and approve the report. If you do not approve the report, you may negotiate with the sellers on which repairs should be performed and who should pay for those repairs. Otherwise, you can cancel the purchase without penalty, provided you have included timetables in your offer. Allow a maximum of ten to fifteen days to receive the report and five days to review it.

One more thing, it is absolutely essential that you include a closing date as part of your offer. This way both you and the seller can make plans for moving and the seller can make plans for buying his or her next home. This also allows the time needed to renegotiate after reviewing the professional inspection report.

Though most transactions actually do close on the right date, remain flexible to avoid delays that may create difficult problems.

For example, if you are renting and need to give the landlord notice that you are moving out, you may want to allow some flexibility in your time line. Otherwise, if your purchase closes a few days late you could find yourself staying in a motel with your belongings packed in a moving van somewhere while you pay storage costs.

You're almost at the end of your journey. Soon, your dream will be a reality and you can begin living in the home of your choice. And, now that you and your seller have come to a mutual agreement, you are ready to sign the contract and put down your earnest money (money indicating the seriousness of your offer). There are all kinds of people and services involved behind the scenes to make this happen before you put the key in the lock.

First, you'll want to close the deal. The road to closing is short, with only six major steps. These steps generally are handled at your title company office. Participants at this meeting are you, the buyer, the seller, your attorneys - if you have them, your real estate agent, escrow agents and anyone else who may have an interest in the transfer of title.

And of course, the final step - moving in! Congratulations - you have now accomplished the American dream of owning your own home!