Merriman's Guide to the HOMEBUYING Process

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A NOTE TO THE READER

Buying a home can be an exciting but nerve-wracking process. It's an emotional transaction, and fine details can often be overlooked. In *Merriman's Guide to the Homebuying Process*, Merriman Advisor Geoff Curran gives some important advice to home buyers based on his own experience and the help of mortgage brokers, insurance agents, and inspectors. Whether it's general negotiating skills or tactics to receive assistance with financing from the seller, understanding the whole home buying process before you even start can make it all go much more smoothly.

When my wife and I went through the process of buying our home in Washington State, I felt I knew everything there was to know about home buying. Well, that was a rude awakening. Thanks to many conversations with our mortgage broker, realtor, homeowner's insurance agent, inspector, family and colleagues, we were able to confidently move forward and not run into surprises. This short book shares the knowledge gained from my experience of spending hours researching online, as well as expertise shared by a handful of other professionals.

STEP 1:
Determine price range

Determining the appropriate price range for homes to look at is a good place for you to start. A good rule of thumb is that monthly payments of mortgage principal, interest, taxes and insurance (PITI) should not be more than 28% of your gross monthly income. This is your monthly income before any deductions or taxes are withheld. So if your household earns $10,000 a month ($120,000 a year), and your monthly payment (PITI) is $2,800 or less, then you are within this range. Sites like Redfin and Zillow provide calculators for this under each property listing, with historical property taxes paid on the property to help you estimate costs.

To determine the price of a home you can afford, figure out how much of a down payment you can make and your ability to cover monthly PITI. If you want to buy a $500,000 home, you could put down as little as 3% ($15,000) to more than 20% ($100,000). If it's below 20%, you'll owe private mortgage insurance, which protects the lender in the case of a default, but increases your monthly costs. Keep in mind you'll need to pay out of pocket expenses, such as closing costs, in addition to the down payment. These can range from 2% to 5% of the purchase price.

Build a detailed monthly budget and see how much cash flow you really have available to cover the cost of your monthly payments. If

you're buying the house with a partner, make sure you go through this exercise with them because both of you may need to make adjustments to be able to afford the new home. The rule of thumb of 28% or less of your gross monthly income means nothing if you have other outstanding fixed costs that take up much more of your income. It's a good idea to keep your housing and all other debt payments to less than 36% of your gross monthly income.

WHAT TYPES OF LOANS ARE AVAILABLE?

You may have heard others talking about 15-year versus 30-year mortgages, and Federal Housing Administration (FHA) versus conventional mortgages, jumbo loans, adjustable rate mortgages and interest-only loans. Let's talk about what all of that means.

Loan term

For starters, keep in mind that the longer the loan term, the lower your monthly payment will be because principal payments are spread out over a longer time. However, as a result of having a mortgage for 30 years instead of 15 years, you end up paying significantly more in interest. Note that 30-year mortgages are the most common type because they provide more flexibility in your budget, and in most cases, permit you to pre-pay principal at any time. This means you agree to a lower payment with the 30-year term, but you can still pay it off in 15 years if your income and lifestyle permit. However, this requires discipline because you have to send in a separate payment each time for additional principal, which might make you think about what other things you could be spending the money on. For households that have the income and resources and would rather not deal with sending in prepayments or carrying a loan for 15+ years, a 15-year mortgage can make a lot of sense.

FHA

FHA loans are designed for first-time homebuyers who have low to moderate income and can put down as little as 3.5%. FHA loans have lower credit score requirements and allow for a cosigner on the loan, like a parent who's not required to occupy the home, to help you qualify. FHA loans also allow for much higher debt to income ratios (monthly debt costs divided by monthly gross income) than a conventional loan. The downside to FHA loans is you have to pay a mortgage insurance premium up front, and also each month, no matter how big of a down payment you make. You'll need to refinance with a conventional loan to remove the mortgage insurance requirement from your loan.

Conventional

Conventional 30-year and 15-year mortgages are ideal; however, you're required to have a credit score of 620 or higher to qualify. Down payments can be as low as 3%, but if you make a down payment of less than 20%, you'll have to pay private mortgage insurance each month. The benefit of conventional mortgages is you don't need to refinance to remove the mortgage insurance. It automatically drops off when you reach 22% equity in the home through the amortization of the loan, or after two years if you have 22% equity in your home due to appreciation after an appraisal. Conventional loans can also have much higher balances than FHA loans because they don't have county restrictions.

Jumbo loans

A loan is considered a jumbo loan if the amount borrowed is above certain limits set by Fannie Mae and Freddie Mac. Jumbo loans are subject to stricter lending standards that could require two

appraisals instead of one, and usually require a higher down payment. For most counties in the United States, in 2024, mortgages above $766,550 are considered jumbo loans. Counties with higher than average home prices, like Los Angeles County ($1,149,825), Honolulu County ($1,149,825), King County in Seattle ($977,500), San Francisco County ($1,149,825) and New York County ($1,149,125), have higher limits. Jumbo loans are similar to conventional mortgages.

Adjustable rate mortgages

Adjustable mortgage rates (ARMs) carry the most risk related to interest rates. A 5/1 ARM has an introductory fixed rate for five years, and then adjusts once a year after that. After this fixed period, the interest rate can go up or down based on movements in major indices, such as the weekly constant maturity yield on the one-year Treasury bill, 11th district cost of funds index (interest most Western U.S. banks are paying on deposits) and the London Interbank Offered Rate (LIBOR). Other common ARMs are 3/1, 7/1 and 10/1. Since the interest rate can adjust, this subjects you to a lot of interest rate risk and may cause those low payments early on (teaser rate) to become significant in the future, to a point where you may not be able to afford the mortgage. Some households use ARMs when they know they'll be in a home for a short period of time, they have an expected upcoming liquidity event (sale of business, inheritance, etc.) or they plan on refinancing if they end up staying in the home for more than a few years. The trap many borrowers run into with ARMs is that they either aren't able to sell their home as quickly as they planned or they can't refinance due to valuation or much higher interest rates. If you're buying a home for the first time, it's typically best not to use an ARM.

Interest only

Just as the name says, you only pay interest on the mortgage through your monthly payments. The term is usually fixed at between five and seven years. Similar to an ARM, borrowers choose interest-only loans if they want to keep their payment low for a number of years and plan on either selling their home, refinancing, paying down principal or just paying it off entirely. Since you're just making interest payments, your loan balance will stay the same throughout the life of the loan. If you're a first-time homebuyer, it's typically best not to use an interest-only loan.

STEP 2:
Get pre-qualified and pre-approved for a loan

After you decide on the loan type and term, you need to pre-qualify for a loan prior to submitting a loan application for pre-approval. You can do this with multiple mortgage brokers at no cost.

Ask real estate professionals, friends and family for referrals and compare their quoted rates to online mortgage companies. Online-only brokers offer mortgages that often have lower costs and potentially lower interest rates, but be aware they may not be as responsive as a local mortgage broker.

Since real estate transactions often occur on the weekend or in the evening during the week, having a mortgage broker who is available to answer your questions during those crucial times can be important. In a competitive real estate market, being able to move quickly when making an offer is a real benefit.

To become pre-qualified, the only information you need to give the broker is your income and existing monthly debt payments (auto, student loans, etc.).

It's important to ask a potential mortgage broker if they're available after regular business hours, and how many days they need to close on a home purchase. It's good to know what their loan underwriting department's backlog is like,

because if it's significant, they might not be able to get to your mortgage before your closing date, and the deal may fall through.

Once the mortgage broker collects basic information from you, like how much of a down payment you're comfortable making, home purchase price and your current income, you'll receive an initial quote. This home purchase price estimate doesn't have to be the exact purchase price of the home you plan on buying, just something in the general range to get an idea. This quote will show the current interest rate and estimates of closing costs and prepaid costs.

This should be an educational process, so have your mortgage broker explain each item to you. On the following page is a sample quote for a $450,000 purchase price with a 5% down payment.

$427,500 loan amount, 3.5% (3.792% APR), 30 years

Your monthly payment includes:	
Principal and interest	$1,919.67
MI (mortgage insurance)	$146.06
Property Taxes	$416.67
Hazard Insurance (homeowner's insurance)	$62.50
Total monthly payment	**$2,544.90**
Your total payment is $2,544.90/mo.	
Down payment of 5.0%	$22,500
Closing costs	$4,759
Prepaid costs	$4,052
Closing costs credit to lender (you may not see this)	-$1,603
Total cash required	**$29,708**
Closing costs include:	
Loan fee + 0.25% discount	$1,069
Appraisal	$600
Credit report	$29
Lender's title insurance	$824
Owner's title insurance ($1,457 paid by seller)	$0
Escrow/closing fee	$997
Recording fee	$181
Administration fee	$995
Tax service	$53
Flood certification	$11
Total	**$4,759**
Prepaid items:	
15 days interest at $40.99/day	$615
6 months of property taxes at $416.67/mo.	$2,500
15 months homeowner's insurance at $62.50/mo.	$938
Total	**$4,052**
Closing cost credit from lender	**-$1,603**

Following is an explanation of each item.

Annual percentage rate vs. mortgage interest rate

Annual percentage rate (APR) calculates the total cost for you to borrow money, including the stated interest rate, discount points, mortgage broker fees and other costs you're required to pay to get the loan. APR helps you more accurately compare quotes from different lenders that have varying interest rates and loan costs. Comparing a loan's interest rate to its APR helps you differentiate between loans that show a lower interest rate but have higher total loan costs. If you're most concerned about having the lowest monthly payment, then you should focus on the mortgage interest rate (non-APR).

Mortgage insurance

This is the insurance cost you have to pay when you don't put down at least 20% on the home. Lenders require this to insure their investment in case of a default and they're not able to sell the home for a price that recoups their funds. The amount you pay depends on your credit score. The cost of private mortgage insurance (PMI) is a combination of your credit score and the amount of your down payment. The higher your down payment and credit score, the lower your PMI will be. In general, the higher your credit score is, the lower the PMI costs.

When reviewing loan documents later in the purchase process, make sure to check with your mortgage broker and look at the paperwork to see if and when PMI can be removed. FHA loans require that you refinance to remove this insurance cost. Conventional loans remove the PMI either when the loan amortizes as scheduled to 22% equity in a couple of years, or when you hit 22% equity through appreciation and can have it removed through an appraisal. You must be current on the

mortgage for two years to be able to do this.

Property taxes

County websites, along with Zillow and Redfin, show historical records for property taxes. Use these figures to estimate the property taxes you'll pay. Until you've found a property, the mortgage broker will use a base property tax rate of 1.1% of the purchase price as shown in the example to determine an estimate for the quote.

Hazard insurance

This type of insurance is part of a homeowner's insurance policy. Banks require that you meet certain coverage minimums to protect their investment in case something happens to the home. Shop around, but also request a quote from your automotive insurance provider. There are several discounts available for multi-line coverage, such as auto, home, umbrella, etc. Depending on where you live in the country and the location of the property, you may need to ask for quotes for earthquake insurance and/or flood insurance because homeowner's policies don't cover this. Lenders don't require earthquake insurance; however, they do require that you buy flood insurance if your property is currently or is later deemed to be in a flood zone.

Closing costs

These are the costs related to valuing, collecting and disbursing funds, and properly transferring ownership of the property. Closing and prepaid costs listed below can be anywhere from 2% to 5% of the purchase price.

Prepaid costs

These are the costs collected up front in the closing process to cover property insurance, any interest and homeowner's

insurance. This money is refunded if you immediately sell the property. Prepaid costs also include the costs to reimburse the seller for any property taxes or homeowner's association dues they paid in advance. Also, the lender uses part of the funds collected up front to build a reserve for things like property insurance and property taxes, which are paid either semi-annually or annually.

Although these costs are prepaid, your monthly payment of PITI will not be reduced in the first year or months due to these prepaid costs. Any overpayments, however, are refunded to you.

Loan fee + 0.25% discount

Your bank may or may not charge a loan fee. Typically, their cost is built into other line items in closing costs such as administration fee. The discount, otherwise known as buying down your interest rate, is calculated as the number of points (1 point = 1%, 2 points = 2%) times your loan amount. So for a $427,500 loan, a point equals $4,275, or in the example above, a quarter of a point equals $1,069. In general, each discount point reduces your mortgage interest rate by 0.25%. If you plan on staying in your home and keeping the mortgage for 10 plus years, having a lower interest rate over the life of the loan can lead to significant savings. However, if you plan on selling the home or paying it off in a few years, this may not be as worthwhile. There are several break-even calculators available online, such as the one on Bankrate.com. Discount points paid up front may be tax deductible if you're able to itemize your deductions.

Appraisal

This is the cost the lender pays for an appraiser to visit the home you're negotiating the purchase of. Since the appraisal

isn't free, the bank usually won't order one until you've negotiated the purchase of the home and have proceeded past the inspection stage. The lender collects the appraisal fee at closing. If you decide not to purchase the home after the appraisal, the lender requires you to pay for the costs, which could be in the $600 range. They'll ask for your credit card information in the loan documents for this purpose, but they won't charge your credit card unless the purchase falls through.

Lender's title insurance

This is the cost you pay to ensure the title is transferred correctly from the seller to the buyer. This will verify there aren't any liens or claims on the property. It even includes verifying whether any appliances or heating and cooling equipment on the property are currently leased, with requests that the seller pay to end those leases as soon as possible. You and your realtor can choose what independent firm to use for this service. Also, check with your lender if you want to use a different provider than they recommend to make sure they can work with them.

Owner's title insurance

While the lender's title insurance protects the lender in the case of a title issue, an owner's title policy protects the buyer. Hidden title problems can include errors and omissions in deeds, forgery, undisclosed heirs and mistakes. You pay this one-time premium at closing.

Escrow/closing fee

This is the cost charged by the third party to handle the money throughout the transaction.

Recording fee

This is a fee charged by the county to legally record the transaction so it becomes public record. This fee may vary depend-

ing on the county.

Administration fee
This is a fee charged by the bank for the underwriting process and document preparation.

Tax service
This is the cost for the lender to file the tax-related documentation for your loan and home purchase each year.

Flood certification
This is a service used to determine if you live on a floodplain. If you do, your lender will require you to buy flood insurance. It's not included in standard policy offering, so you can request a quote for flood insurance from your homeowner's insurance provider.

Prepaid interest
Mortgages are paid in arrears, so you do not pay principal and interest up front. Let's say, however, that you buy a home on October 3, but your first mortgage payment isn't due until December 1. The bank will have you pay a month's worth of interest up front for October, which would ordinarily be due on November 1 under the prepaid costs section. Having your close day a few days into a new month, rather than at the end of a month, can ease your finances by having two months without a mortgage payment, especially if you're ending a rental agreement and/or you need additional funds for moving and new furniture.

Prepaid property taxes
Property taxes are assessed once a year, are paid in two installments, and are due toward the middle of each cycle. For example, the first half of the taxes would be due by the end of April for the period January through June. The second half of

the taxes would be due six months later by the end of October to cover July through December. If you were to close on your new home in early October, the seller would pay the second half taxes at closing, and you would pay the seller the prorated portion to cover the three-month time frame of October 1 to January 1.

Prepaid hazard insurance

Lenders make annual payments toward your homeowner's insurance premium, rather than monthly installments. This means the lender collects at least a year's worth of insurance premiums up front to prepay the insurance. The lender may choose to collect three additional months of insurance premiums to keep in reserves. Keep in mind if you have earthquake or flood insurance, they usually require premiums to be paid at one time each year, and lenders will include this amount, potentially increasing your prepaid closing costs.

Closing cost credit from lender

If there's some sort of bank program or benefit you qualify for, the lender may be able to credit you funds at closing to reduce your closing and prepaid costs. Examples of this would be programs to encourage homeownership in your community or a benefit to incentivize people at your work to use their bank.

PRE-APPROVAL FOR A LOAN

You can jump to being pre-approved up front, but many prefer to shop around on interest rates and terms, then get pre-approved once they find the right interest rate and mortgage broker. To get pre-approved, collect the following information:

- Pay stubs for the last 30 days
- Two years' worth of tax returns, W-2s and 1099s
- Bank, brokerage and retirement account statements

- The balances and monthly payment amounts for any debt payments, such as auto or student loans

The lender commonly asks for this information in order to process a loan. The broker can enter the information with you present, or they can give you a link to enter and upload the documents to their underwriting department.

Once the mortgage broker's underwriting department approves your mortgage application, you'll receive a conditional approval letter.

The lender usually gets your credit score from three different agencies, and the score range goes up to 850. If applying as a couple or individually, they use the lowest of your scores for their underwriting process to be conservative. So if you have scores of 799, 804 and 811, the bank will use 799.

STEP 3:
Consider the different financing techniques

When buying a home, it's helpful to be aware of the different financing techniques, such as a seller's assist, paying discount points and making a down payment that's less than 20%.

SELLER'S ASSIST

During the purchase price negotiations, you can finance your closing costs if you don't want to pay them out of pocket at closing. These funds can only be paid toward financing related costs. This includes closing costs, prepaid costs and buying down your interest rate. Buying down your interest rate is often referred to as discount points. Using a seller's assist is especially useful for first time homebuyers who have fewer cash resources. Without a seller's assist, you would have to pay for closing costs out of your savings.

Ask your mortgage broker how much of a seller's assist is permitted on the loan you applied for, as it may be anywhere from 3% to 6% of the purchase price of the home. For a $500,0000 home, a 3% seller's assist would provide $15,000 to cover these costs at closing. Lenders are limited to offering a 3% seller's assist to conventional loan borrowers who are making a down payment of less than 10%. FHA loans allow a 6% seller's assist, even if the borrower makes a down payment as low as 3.5%.

When negotiating a seller's assist into a purchase agreement, keep in mind the seller may increase the price of the home in their counteroffer. In this circumstance, you'll need to evaluate if it makes sense and have your mortgage broker run a new quote with the new purchase price information. If you end up using a seller's assist, make sure your mortgage broker runs the numbers to make sure you are maximizing it between your closing, prepaid and any discount points.

DISCOUNT POINTS

Buying down your interest rate or discount points is worth considering if you plan on staying in the home and keeping the mortgage for a long time. A decrease in interest rate can lead to real savings over the life of a mortgage. However, it won't lead to much savings if you plan on keeping the mortgage for a short period of time.

As mentioned above, you can determine how much the interest rate will be reduced by multiplying the discount points by the loan amount. In general, each discount point reduces your mortgage interest rate by 0.25%. Discount points may be tax deductible if you're able to itemize on your taxes.

DOWN PAYMENT THAT'S LESS THAN 20%

For many, putting down $100,000 to make a 20% down payment on a $500,000 home is not a realistic option. Many households have the income necessary to afford such a home comfortably, but not the assets. This is particularly true for younger households. In most cases, it doesn't make sense to withdraw from retirement accounts or even liquidate appreciated investments to reach 20%. If you can make a 5% down payment of $25,000 instead, you'll have to pay private mortgage insurance each month. If you and your spouse have high credit scores, this could be a very reasonable cost of around

0.40% added to your interest rate. If your income is below certain thresholds, private mortgage insurance costs may also be tax deductible.

Keep in mind that with a 20% down payment, the lender is giving you five times leverage, while with a 5% down payment, you have 20 times leverage on your money. It's more common now for people to put down less than 20% than in the past as housing prices have increased, while interest rates have declined.

So let's say your household is in the 22% federal marginal tax bracket (taxable income between $78,950 to $168,400 for married filing jointly) and the interest rate on your mortgage is 3.5%. Your after-tax cost of debt would be 2.73% [3.50% x (100% - 22%)] due to mortgage interest being tax deductible if you can itemize*. If you have good credit, then your mortgage insurance cost would be more reasonable, approximately 0.40% or higher, leading to a total after-tax cost of debt of 3.13% (2.73% + 0.40%).

**Beginning in tax year 2018, couples filing jointly can deduct the interest on up to $750,000 of qualified residence loans.*

STEP 4:
Find a realtor

With the listings, pictures and home information now available at your fingertips through websites like Zillow and Redfin, it may be difficult to see why you need a real estate agent to start your house hunt. However, when you're ready to start touring homes and enter negotiations, it's best not to go it alone. The listing agent on a home can show you the home and walk you through the transaction if you don't have a realtor, but keep in mind they have an inherent conflict of interest by representing the seller and not you. A realtor's work really starts once you put in an offer on a home. Their role is to make sure the transaction goes smoothly and to advise along the way.

Importantly, sites like Zillow aren't always the most up to date, where homes that are pending under contract still show as for sale. Real estate agents often have more relevant information with their access to the multiple listing service (MLS). Also, real estate agents are sources for referrals for home repair, fence building, land clearing, cleaning professionals, etc.

Ask friends, colleagues and family for referrals. Interview a few real estate agents to determine who is a good fit for you and can keep your emotions in check during negotiations. Since it's likely you'll be viewing many homes during non-regular

business hours (after 5 p.m. on weekdays or during the day on weekends), make sure to check what schedule your realtor works and if the area where you want to purchase a home is convenient for them. If your realtor lives all the way across town from where you want to buy, traffic may constrain their flexibility in being able to show you homes at times that work best for you.

STEP 5:
Search for a home

Once your financing is approved and you have a realtor working for you, you can begin walking through homes.

Pictures on house listings often don't show the fine details, like how good the craftsmanship is in the kitchen, and what the backyard really looks like when you're there in person. You may see a handful of homes at a time, or 12 in day if you have limited time to see homes. Make sure to view all of the homes you're interested in and that your realtor finds to be good matches.

DON'T SETTLE JUST BECAUSE YOU'RE TIRED OF LOOKING.

After walking through several homes, you'll know which one stands out from the rest. There is no point in settling just because you don't want to see more houses.

STEP 6:
Make an offer

Once you've found a home you want to purchase, you and your realtor can draw up a purchase agreement to make an offer. This agreement covers everything from the offer amount to requirements that must be met for you to go through with the deal. These requirements are called addendums or contingencies. Your realtor will ask you to put down earnest money to show your commitment to the seller of your purchase intent. This could be anywhere from 1% to 3% of the purchase price, or just a few thousand dollars. Also, you can indicate a particular seller's assist that you want to include in the deal to cover any discount points, prepaid and closing costs.

You need to specify a close date. Mortgages are paid in arrears, so if you need to reduce costs during moving time, closing early in the month, say October 3, means your first mortgage payment won't be until December. This is because you have to have a full first month to owe a mortgage payment. Therefore, the lender will charge you prepaid interest for the month of October.

Recommended addendums (contingencies) include:

- **Financing** – If the bank's appraisal comes up short of your purchase price, this addendum requires the seller to work with you to lower the price to where the house is ap-

praised, or you can walk away from the purchase.

- **Inspection** – If you find some real problems in the inspection report that the homeowner won't agree to repair for you, you can walk away from the transaction. The seller can lower their price to meet you halfway, though.
- **Homeowner's association** – You may need to evaluate the HOA and make sure you're agreeable to their bylaws. If you need to have a privacy or security fence put in your yard that requires HOA approval, this addendum allows you to walk away if they don't approve your fence. It also gives you time to request and view the HOA's finances.
- **Checking the sewer or septic system** – Issues with the sewer connection and/or septic system can lead to significant costs that a homebuyer may not be prepared to make. This addendum allows you to walk away if the costs are too significant and the seller is not willing to help with the repairs.

If any of these items are not met to your liking, you're able to walk away from the purchase and not forfeit your earnest money.

STEP 7:
Counteroffers

If you offer the exact market price and there are other bidders, it's likely the seller will make a counteroffer with a higher price. This is an emotional time. You don't want to overpay, but you also don't want to lose the house you've set your heart on. Be patient and work with your realtor to find a compromise on price that still works with your budget.

Once you've agreed on a price with the seller, contact your mortgage broker and provide the final terms. Have them provide you with a quote that takes into consideration the agreed upon purchase price, required down payment and any seller's assist to include. If the quote meets your expectations, you can proceed with locking in the interest rate and terms. This may require a call to the mortgage broker per their protocol.

Depending on the market and the seller, you may have to offer or agree to a rent-back, where the seller can rent the home from you for a reasonable price while they finish finding their next home and moving out. Part of the reason for this is that in many states, the seller can't close on their new home on the same day as you and use the proceeds. They may have to wait a few days.

Counteroffers can be agreed upon and signed digitally or in person. Spouses can sign digitally at different times and locations.

STEP 8:
Inspection

Once you've come to a mutual agreement with the seller to buy their home, you can schedule the inspection. Usually the purchase contract has a time deadline to complete this, such as 10 days. Make sure to clarify if this means 10 regular days or 10 business days. Ask friends and family for referrals. A good inspector is worth the cost, so take the time to interview them. If you can't get any referrals from independent sources, then ask your realtor.

Inspections can cost anywhere from $300 to $800 and last anywhere from two to four hours. It's important you are present for the inspection. Make sure to walk around with the inspector and have them point out issues as you proceed. With older homes, it's likely you'll find many issues in the inspection report, but make sure to focus on the ones that need more immediate attention.

The following items should be top priority.

- **Roof** – Check the condition of the roof, as it is an important and expensive fix. This includes making sure skylights aren't leaking or need repair.
- **Flood zone** – Check to make sure the home is not in a flood zone as this may be bad news.
- **Plumbing** – Check for leaks, sagging floors and septic issues.
- **Electrical** – Check the age of the fuse box and how many amps are going into the home.

After reviewing the items the inspector thinks are most pressing, write a list with your real estate agent of what items you'd like the seller to fix as part of your purchase agreement. If it's related to electrical and plumbing, make sure to include verbiage that requires a licensed and bonded contractor to perform the labor. Request copies of receipts and proof of work from the seller. Have your realtor include a requirement that the seller provide proof of repairs made 10 days before closing. This way you avoid doing your final walkthrough of the home and finding that many items aren't fixed. At that point, you can't do a whole lot about it.

If the repairs on the inspection report are significant, you may want to consider walking away from the transaction.

SELLER'S RESPONSE TO INSPECTION NEGOTIATION

Similar to your counteroffer, a seller may counter your inspection requests with what they will and won't fix. Hopefully they provide a rationale for what they won't fix, not just "we won't do this." Keep in mind that the pressing items the seller won't fix will come out of your pocket when you own the home.

If both parties agree to these terms, the purchase is on track to close at the time agreed upon in the purchase agreement.

THINGS TO DO BEFORE CLOSING

Prior to closing on your new home, contact your new home's utility providers so you can open accounts and set the start date for the day after closing. This includes electric, gas, garbage and recycling, waste and internet/cable. You'll also want to schedule an appointment with a locksmith, or change the locks yourself.

STEP 9:
Closing

Depending on the lender, closing could be anywhere from 40 days or more after the mutually agreed upon purchase. At closing, the funds you put up in earnest money, plus other funds to cover the remainder of the down payment and closing and prepaid costs, will be transferred via the escrow agent to the seller. Ask your closing agent or realtor, but in most cases, you'll take ownership of the home at 9:00 p.m. the night of closing.

Plan on having flexibility in your work schedule around your closing date as your closing agent may need you to come in first thing in the morning or in the middle of the afternoon to sign documents. Proactively contact your closing agent (the title insurance agent, who should have contacted you already) and try to get an appointment scheduled on your closing day. The closing agent is somewhat constrained by the lender's processing department getting them the loan documents in time.

Plan on spending 45 minutes to an hour at your closing appointment reading and signing the paperwork. Both you and your spouse will need to be there to sign the documents in person and have them notarized. You'll be signing at least 15 documents. Your lender should have shown you versions of many of these documents a few weeks prior. Since some things change, like how much your homeowner's insurance

costs are, make sure to look closely. If you notice any mistakes, like the wrong county listed or negotiated items not included, make sure to have the closing agent add them and, where possible, make the changes and initial them.

Once you've signed these papers, you can proceed with the bank wire. If you have an afternoon closing appointment, you may want to send the wire beforehand. They also accept cashier's checks, but if there's any shortfall in funds, you'll need to go back and request additional funds. Wires are easier. Request wire instructions ahead of time so you can have them set it up with your bank. Many banks let you do this online, but just in case, you may want to make an appointment at a convenient bank and go there in person for the wire.

STEP 10:
Saving for house improvement and maintenace

Even though you've already put up a lot of cash to cover the down payment and any closing and prepaid costs, you need to start saving for maintenance and improvements on the home. It's not a good feeling when you're unprepared for an unexpected furnace or roof replacement.

On average, homeowners spend 1% to 4% of the home's value each year to maintain and repair it, and this increases over time as the home ages. This may seem like a huge expense up front, but budgeting to set aside a few hundred dollars each month or quarter will reduce your stress significantly over the long term.

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