BUYER GUIDE

NessellHomes.com
sell · buy · invest · lease

THE BUYING PROCESS

SUBMITTING AN OFFER

Once you have chosen a real estate professional they will guide you through the process of finding a property that fulfills your needs. When you have chosen a property the real estate professional will draft a purchase agree- ment for you, advising you on protective contingencies, customary practices, and local regulations. At this time you will need to provide an "earnest money" deposit, usually from 1% to 3% of the purchase price (the deposit is not cashed until your offer has been accepted by the Seller). The buyer will choose the title and escrow com- pany. California Title would love the opportunity to service your needs. The seller will then accept, counter or reject the offer.

OPENING ESCROW

Once the offer is accepted and signed by all parties the buyers real estate professional will open escrow and the earnest money will get deposited into an escrow account. All funds associated with the transaction will be handled through escrow.

THE CONTINGENCY PERIOD

This is the time allowed per your Purchase Agreement to obtain financing, perform inspections, and satisfy any other contingencies to which your purchase is subject.
Typical contingencies include:

◆*Approval of the Seller's Transfer Disclosure Statement*

◆*Approval of the Preliminary Report from the Title Company*

◆*Loan approval*

◆*Appraisal of the property*

◆*Physical inspections of the property*

◆*Pest inspection and certification*

◆*Satisfaction of any purchase contingencies & specific transaction requirements*

THE BUYING PROCESS (cont.)

HOMEOWNERS INSURANCE

Before the close of escrow the buyer must obtain homeowners insurance that is acceptable by the lender. The real estate professional will coordinate between your insurance agent and the Escrow Officer to make sure your policy is in effect at close of escrow.

DOWN PAYMENT FUNDS

You will need a cashier's check or wire transfer several days prior to the closing date of escrow. Es- crow will provide a settlement statement with the required amount of funds needed to close includ- ing down payment and closing costs.

SIGNING LOAN DOCUMENTS

When all of the conditions of the Purchase Agreement have been met, you will sign your loan documents. Escrow usually sets up the appointment for your final signing.

CLOSING ESCROW

After loan documents are signed, the buyer has deposited the remaining balance of funds needed to close and all of the purchase agreement requirements have been met the lender will review the loan documents. If everything is satisfactory the lender will fund the loan. The Deed will then be recorded at the County Recorder's office and the buyer will take ownership of the home.

INSPECTION PROCESS

When you make an offer on a home, your Purchase Contract will likely contain provisions allowing you various inspections of the property. The purpose of these inspections is to educate you as to the physical condition of the property you are purchasing. While these inspections do not provide guarantees of the condition of the property, they do provide valuable information to you as a Buyer. It is important to remember that your Purchase Contract may provide for withdrawal from the contract if these reports are unsatisfactory to you, but inspections should not be considered an open door to renegotiate the purchase price.

STRUCTURAL PEST CONTROL INSPECTION

Often referred to as a “Termite Report,” the Structural Pest Control Inspection is conducted by a licensed inspector. In addition to actual termite damage, the Pest Report will indicate any type of wood destroying organisms that may be present, including fungi (sometimes called “dry rot”), which generally results from excessive moisture.

Section I Conditions
Most Pest Reports classify conditions as Section 1 or Section 2 items. Section 1 conditions are those which are “active,” or currently causing damage to the property. Generally, Section 1 items need to be corrected before a lender will make a loan on a home.

Section II Conditions
Those which are not currently causing damage, but are likely to, if left unattended. A typical Section 2 item is a plumbing leak where the moisture has not yet caused fungus decay.

Who Pays?
Your Purchase Contract will specify who is responsible for the cost of the inspection and making these corrections. This is a negotiable item and should be considered carefully. Your real estate professional will advise you as to what is customary and prudent.

PHYSICAL INSPECTION

The Physical Inspection clause in your Purchase Contract, when initialed by both parties, allows you the right to have the property thoroughly inspected. This is usually done through a General Home Inspection. While Home Inspectors are not currently required to have a license, most are, or have been, General Contractors. The Inspection and the resulting report provides an overall assessment of the present condition of the property.

What is Inspected
The Home Inspection covers items such as exterior siding, paint, flooring, appliances, water heater, furnace, electrical service, plumb- ing, and other visible features of the property. This is a general inspection and will often call for additional inspections by specific trades, such as roof and furnace inspections.

Further Inspections
If conditions warrant, the Home Inspector may recommend a Structural Engineer’s Report. Such a report would identify structural failures and detail recommended corrections.

Who Pays?
Typically, this inspection is paid for by the Buyer.

GEOLOGICAL INSPECTION

You may also elect to have a Geological Inspection to educate yourselves as to the soil conditions at the home you are purchasing. This inspection is performed by a Geotechnical Engineer and involves not only physically inspecting the property, but also researching past geological activity in the area. The primary purpose of a Geological Inspection is to determine the stability of the ground under and around the home.

Who Pays?

HOMEBUYER'S GLOSSARY

Exclusive Rights A written agreement between owner and agent giving agent the right to sell a property and collect a fee for a set term.

Fair Market Value The price at which a willing seller would sell and a willing buyer would buy, neither being under abnormal pressure.

Loan Origination Fee Normally 1% of the loan amount, charged by the lender to the buyer.

Mortgage A legal document that provides security for repayment of a promissory note.

Mortgagee's Title Policy Required by lenders to ensure that the lender has a valid lien. It does not protect the buyer. Also required for 2nd mortgages.

Owner's Title Policy Insures the buyer against loss due to any defect of the title not excepted to or excluded from the policy.

Points Paid by the buyer or seller. One point is equal to one percent of the loan amount.

Principal The employer of an agent in an agency relationship.

Recording Fee Charged by the County Recorder to record documents in the public records. Charges are based on number of pages recorded.

Septic Inspection The septic system must have certificate by the city or county Health Department.

Survey Survey of property required by lender; shows lot size, easements, any encroachments, locations of improvements, etc. . . .

Tax Service Fee Required by the lender for collection and disbursement of tax escrow by a servicing company.

Termite Inspection Required by lender to show property free and clear of active termites.

Time is of the Essence Demands punctual performance in a binding contract.

Title Policy Insurance policy on the ownership of real property, against defects in title.

Title In dealing with Real Property, title means ownership.

Underwriting Fee Charged by a lender to underwrite the loan.

VA Funding Fee Veteran's Administration charge for originating a VA loan.

Warehouse Fee Charged by the lender to hold the loan locally before selling it in the secondary mortgage market to an investor.

Zoning Act of city authorities specifying type of use for which property may be used.

SHOPPING FOR A LENDER

A very important part of purchasing a home is finding the right lender. Listed below are questions to ask while shopping for a lender and characteristics you should look for when choosing a lender, as well as, what not to do when shopping for a lender.

QUESTIONS TO ASK WHILE SHOPPING FOR YOUR LENDER...

What is his or her reputation within the community? How many loans do they close each year?

Is the company well known in the area? How long has the company been in the business?

Is the lender a mortgage broker? Does the lender have access to a wide variety of loan packages?

Can the interest rates be locked in and for how long?

WHAT NOT TO DO WHEN SHOPPING FOR YOUR LENDER...

****Do NOT call around asking for interest rate quotes:***

- Rates quoted over the phone are rarely locked prices. This is one way the lender gets you to come into his office. Rates can be subject to change unless they are predetermined for a specific period of time.
- Interest rates can change daily. A quote you get today may not be available at the same price tomorrow.
- The interest rate you are quoted over the phone by a lender who knows nothing about you may not be a program that will fit your needs or situation.
- You will have no knowledge of the other programs the lender may have to offer you.

GETTING PREQUALIFIED

Most Real Estate Agents and Lenders recommend that home buyers get pre-qualified with a lender before selecting a home to purchase. This way you will have the best information about the right price range for your pocketbook.

- With prequalification, you can determine which loan program best fits your need and which programs you qualify for. (List of loan programs to follow)
- You will know exactly how much you are qualified for. It's no fun to find your "ideal home" and then find out you can't afford it.
- Your monthly payment will be set. This will allow you to budget your money before making this large investment.
- It shows you what the down payment and closing costs will be.
- If you are a first-time buyer, you may be able to qualify for a special first-time buyer program which may allow you to afford more home for your money.
- If you feel you would like and can afford a higher mortgage payment but are not able to meet qualifications, co-mortgagor financing may be made available to you.

INFORMATION NEEDED AT LOAN APPLICATION

- ❑ Picture ID with proof of Social Security Numbers.
- ❑ Residence Addresses - past 2 years.
- ❑ Names and Addresses of each employer - past 2 years.
- ❑ Gross Monthly Salary. Base only: OVT & Bonus list separate.
- ❑ Names, Addresses, Account Numbers & Balances of all Checking & Savings Accounts - last 2 months of bank statements.
- ❑ Names, Addresses, Account Numbers, Balances and Monthly Payments of all Open
- ❑ Loans. Names, Account Numbers, Balances and Monthly Payments of all Credit Cards.
- ❑ Addresses of other real estate owned.
- ❑ Loan information on other real estate owned.
- ❑ Estimated Value of Furniture and Personal Property.
- ❑ Certificate of Eligibility and DD214's (V.A. only).
- ❑ Money for Credit Report and Appraisal.
- ❑ W2's (2 years) and current check stub.
- ❑ Full divorce decree if applicable.

MORTGAGE LOAN CHECKLIST

In order to expedite the mortgage loan process, please be sure that you bring everything you need to make your appointment as smooth and efficient as possible.

- ❒ Sales Contract (On the purchase of your new home)
- ❒ Copy of Sales Contract and certified copy of Closing Statement (On the sale of your present home) Copy of driver license and Social Security Card (FHA only)

Residence History

- ❒ Past 24 months of residence with complete addresses Length of time you lived at each residence
- ❒ Name of landlord and their address (if currently renting)

Employment History

- ❒ Employers for the past two years with complete addresses Dates of employment for each place
- ❒ Most recent two years of W-2's
- ❒ Most recent two years of tax returns (with all schedules and signed in blue ink)
- ❒ Year-to-date profit and loss statement and current balance sheet (if self-employed only) If there have been any gaps in your employment, be prepared to explain

Loans and Credit Cards

- ❒ Creditors' names and addresses Account numbers
- ❒ Current total balances you owe
- ❒ Monthly installments, payments and how many months are left to pay

Accounts

- ❒ Name and address of each financial institution Three months of bank statements for all accounts All account numbers
- ❒ All current balances and values

Current Real Estate

- ❒ Property addresses Estimated market values outstanding loan balances Amount of monthly payment
- ❒ Amount of monthly rental income, if applicable

Personal Property

- ❒ Net cash value of your life insurance Year, make and value of your automobiles
- ❒ Value of your furniture and other personal property

If applicable, the following:

- ❒ Divorce papers Certificate of eligibility & DD214 (VA Only) Check for appraisal and credit report fees

TYPES OF LOANS

Adjustable Rate Mortgage	*Adjustable rate mortgages have an interest rate that is adjusted at certain intervals based on a specific index during the life of the loan.*
Balloon Payment Loan	*A fixed rate loan that is amortized over 30 years but becomes due and payable at the end of a certain term. May be extendible or may roll-over into another type of loan.*
Buy-Down Loan	*Buy-Down loans are fixed rate loans where the interest rate and the payment are reduced for a specific period of time by paying the interest up front to subsidize the lower payment.*
Community Homebuyer's Program	*A fixed rate loan for first time buyers with a low down payment, usually 3-5%, no cash reserve requirement and easier qualifying ratios. Subject to borrower meeting income limits and attendance of a four hour training course on home ownership.*
Conventional Loan	*Conventional loans are sometimes more lenient with the appraisal and condition of the property. When you are buying a "fixer upper" you may need to use a conventional loan. Homes purchased above the FHA loan limit are usually financed with conventional loans.*
FHA Loan	*FHA loans are insured by the Federal Housing Administration under H.U.D. They offer a low down payment and are easier to qualify for than conventional loans.*
Fixed Rate Loan	*A fixed rate loan has one interest rate that remains constant throughout the life of the loan.*
Graduated Payment Mortgage	*A fixed rate loan that has payments starting lower than a standard fixed rate loan, which then increases by a predetermined amount each year for a set number of years.*
Non-Qualifying Loan *(Assumable)*	*Non-Qualifying loans are preexisting loans which can be assumed by a buyer from the seller of a property without going through the qualifying process. The buyer pays the seller for their equity and then starts making payments.*
VA Loan	*VA loans are guaranteed by the Veterans Administration. A veteran must have served 180 days active service.*

POINTS EXPLAINED

What is a Point?

One point is equal to 1% of the NEW Loan Amount.

Why do Lenders charge Points?

Whenever governmental regulation, state usury law and/or competitive practices prohibit the lender from charging a rate of interest which would make the real estate loan competitive with other fields of investments, the lender must seek some method of increasing the yield for the investors. By charging "points", the lender can bring the real estate loan up to those other investments.

Are points called by different names?

Yes. Loan Origination Fee, Commitment Fee, Discount Fee, Warehousing Fee, Funding Fee, etc.

Who must pay the points?

FHA: the Buyer is usually charged with the Loan Origination Fee; the Discount Fee can be paid by the Buyer or Seller.
VA: the Buyer is usually charged with the Loan Origination Fee and the Funding Fee. Conventional: points can be paid by the Buyer, the Seller, or split between the two. State on Contract of Sale!
City/County/State government sponsored loans: as published by them.

Do the number of points charged fluctuate?

Yes. If rates on mortgage loans are lower than other investments (such as stocks, bonds, etc.) then funds will be drawn away from the mortgage market. Also, when there is a heavy demand upon the money market because of business needs, role requirements or other government borrowing, the result is that money for home mortgages becomes scarce and more expensive. When this occurs, more points can be charged. Points balance the market. Points are not set by government regulation but by each lender individually.

On VA loans, is there any way to lock in the number of points?

Not without jeopardizing the sale. Even when a lender stipulates in writing the number of points to be charged, that guarantee states "if the interest rate is not changed by the government." Points charged on an FHA or conventional loan are usually not changed from commitment time to settlement.

Is FHA or VA financing unfair to sellers?

No. Homes can sell faster because more buyers can qualify with the lower down payment requirement, lower interest rate, - long term loans with lowest monthly payments. Sellers receive all cash for their equity to reinvest in a new home or other investment. The purpose of these loans is to provide purchasers the opportunity to buy homes with minimal cash investment thus providing a bigger market for sellers.

Are points deductible for income tax purposes?

Points on a home mortgage (for the purchase or improvement of, and secured by, the taxpayer's principal residence) are deductible currently if points are generally charged in the geographical area where the loan is made and to the extent of the number of points generally charged in that area for a home loan. If you are in doubt about points being deductible you should contact your tax return preparer.

PRIVATE MORTGAGE INSURANCE (PMI)

When purchasing a home with a down payment less than 20% your lender will require you obtain PMI.
This protects the lender in case of default on the loan. PMI has created the opportunity for many home buyers to qualify with smaller down payments. PMI is typically set up to be paid in 12 monthly installments per year and can be included as part of your monthly mortgage payment. Once your equity reaches 20% you can cancel your PMI by contacting your lender and following their guidelines to remove the insurance. Your lender may require an appraisal to verify the value of your property.

THE LOAN PROCESS

PREQUALIFICATION/INTERVIEW

Application interview
Lender obtains all pertinent documentation

LOAN SUBMISSION

The loan package is assembled and submitted to the underwriter for approval

DOCUMENTATION

Supporting documents come in Lender checks on any problems

Requests for any additional items are made

LOAN APPROVAL

Parties are notified of approval

DOCUMENTS ARE DRAWN

Loan documents are completed & sent to escrow Borrowers sign final signatures with a Notary Public

ORDER DOCUMENTS

Credit report, appraisal on property, verifications of employment, mortgage or rent, and funds to close, landlord ratings, preliminary title report

FUNDING

Lender reviews the loan package Funds are transferred by wire

RECORDING OF DOCUMENTS

California Title Company records the deed of trust at the County Recorder's office.
Escrow is now officially closed

YOU ARE A PROUD HOMEOWNER!

TIPS FOR A TIMELY CLOSING

LENDER REQUIREMENTS: Your lender may require additional documentation or in- spections (roof, septic, water, etc.) in order to comply with loan underwriting require- ments. To expedite the processing of your loan, submit all lender requested documen- tation in a timely fashion.

BUYER PROTECTION PLAN: If a home war- ranty product is being provided and shown on contract, advise the closing agent of the purchase amount to be collected.

CONDOMINIUM APPROVAL: Written ap- proval of the sale may be required from the Condominium Association. Your closing agent must have this approval form in order to close. Be sure to make application early in order to avoid any delay in closing.

HOMEOWNERS INSURANCE (Hazard/ Flood): Your lender will require a copy of the policy(s) and a paid receipt prior to clos- ing. The lender's full name and address must be shown on the policy.

POWER OF ATTORNEY: The use of a Power of Attorney must be approved in advance of settlement by the closing agent and your lender. If you are planning to use a Power of Attorney, inform the closing agent as soon as possible to allow time to properly review the document.

MARITAL STATUS: Spouses may be re- quired to sign certain closing documents even though they do not intend to hold title and their name will not appear on the deed. Check with your closing agent and lender to see what documents you and your spouse will be required to sign at closing.

MAIL-AWAY: If you are unable to attend the closing, provide the address where the closing documents should be mailed and a contact phone number. Your signature on certain affidavits, loan documents and other closing documents may require the services of a notary.

Purchasing a home can be a rewarding experience, but there may be delays in the closing due to situations that could have been avoided. Although closing procedures vary from state to state, having an understanding of what may be required at closing and preparing accordingly will help your settlement process go as smoothly as possible.

REASONS WHY EVERY HOMEBUYER NEEDS TITLE INSURANCE

Buying a home is an exciting and emotional time for many people. To help you buy your home with more confidence, make
sure you get owner's title insurance.

HERE'S WHY IT'S SO IMPORTANT FOR YOU:

1. PROTECTS YOUR LARGEST INVESTMENT

A home is probably the single largest investment you will make in your life. You insure everything else that's valuable to you—your life, car, health, pets, etc., so why not your largest investment? For a one-time fee, owner's title insurance protects your property rights for as long as you own your home.

2. REDUCES YOUR RISK

If you're buying a home, there are many hidden issues that may pop up only after you purchase your home. Getting an owner's title insurance policy is the best way to protect yourself from unforeseen title discrepancies. Don't think it will happen to you? Think again. Title claims can include:

- outstanding mortgages and judgments, or a lien against the property because the seller has not paid his taxes
- pending legal action against the property that could affect you
- an unknown heir of a previous owner who is claiming ownership of the property

3. YOU CAN'T BEAT THE VALUE

Owner's title insurance is a onetime fee that's very low relative to the value it provides. It typically costs around 0.5% of the home's purchase price.

4. COVERS YOUR HEIRS

As long as you or your heirs own your home, owner's title insurance protects your property rights.

5. NOTHING COMPARES

Homeowners insurance and warranties protect only the structure and belongings of your home. Getting owner's title insurance ensures your property rights are protected.

6. 8 IN 10 HOMEBUYERS AGREE

Each year, more than 80% of America's homebuyers choose to
get owner's title insurance.

7. PEACE OF MIND

If you're buying a home, owner's title insurance lets you rest assured, knowing that you're protected from inheriting possible debts or legal problems, once you've closed on your new home.