Homeborrowship

2019

Be informed.

Be accountable.

Written by
Kenneth Straley

Broker - Owner
Offsite Realty Inc

“A MISSION DRIVEN COMPANY”

EDUCATION EXPERIENCE SATISFACTION LOYALTY

Contents

Common Questions : Uncommon Answers – Be informed. Be Accountable.

Introduction

What most people do not realize is you don't get a mortgage you "give a mortgage" when you buy a home. You are giving the bank your home as collateral for money to buy your home. A home can be an asset, a liability, a stock option for your retirement or a passive investment bought for a loss. It can also be used as a tool for leverage or risk of liability.

These are all identifying thoughts and reasons for a person that is either selling a home, buying a home, or searching for a home. There is no right answer as to why a person buys a home, or sells a home, there is only one question that suits both a buyer and seller: "HOW MUCH is the property worth?". A buyer cares how much a home is worth just as much as a seller cares how much their home is worth. It is because of this question I wrote this book, and it is also because of this question we will embark on our journey of Homeborrowship and all that entails it.

Homeborrowship will explain the real estate process start to finish. At the end of this book you will be informed and accountable for your real estate decisions.

PLEASE ENJOY.

What is the difference between a Real Estate Broker and a Real Estate Agent?

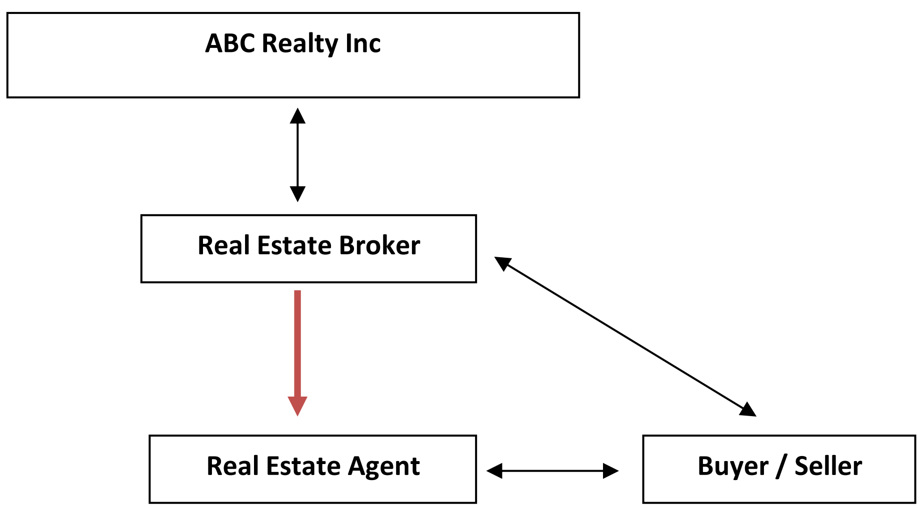
The role and duties of a Real Estate Broker and a Real Estate agent are viewed differently by our governing state authorities as you will soon read below. My personal explanation to people between the differences of a Real Estate Broker and a Real Estate Agent has always been, "It's like the difference between a Nurse and Surgeon." Both are vital in the caring of patients but serve different purposes within a hospital.

A Real Estate Broker quickly defined is: Any person who for another and receives a commission, fee, or other valuable consideration, lists, sells, exchanges, buys, rents, manages OR offers to negotiate a sale, option, exchange, purchase or rental of an interest or estate in real estate OR advertises as engaged in these activities.

A Real Estate Agent quickly defined is: Anyone person who acts on behalf of the Real Estate Broker in performing any act authorized by the broker.

Sounds complicated right? I will break it down even further so there is a valid understanding of the relationship between a Real Estate Agent and a Real Estate Broker and who represents the client in a real estate transaction.

Example: You want to buy a house. You call your local real estate company ABC Realty Inc and tell them you need a Real Estate Agent. They send someone out to meet you. You like this person very much. You hire them to go to work for you on finding a home or selling your home. Or at least that is what you think…right? Wrong. You are hiring the Real Estate Broker of ABC Realty Inc to represent you. The Real Estate Agent works for the Real Estate Broker of ABC Realty Inc. The Real Estate Broker owns or has ownership interest in ABC Realty Inc. The Real Estate Broker is actually the person you are hiring, the Real Estate Agent acts on behalf of ABC Realty Inc and the Real Estate Broker in representing you throughout your real estate transaction. I have designed a diagram below to break this relationship down even further.

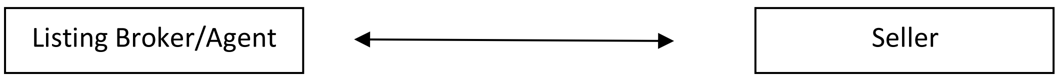


By agreeing to hire a Real Estate Agent or Real Estate Broker to represent you on the purchase or sale of a home or property a term called *"Agency Representation"* now becomes vital in the real estate transaction.

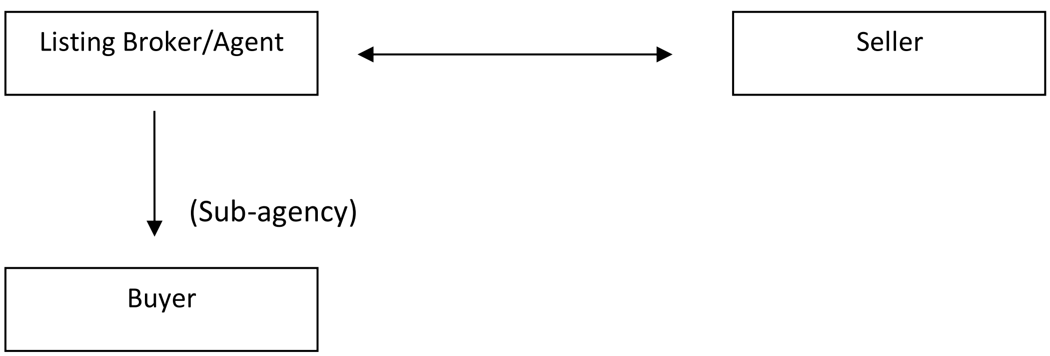
What is Agency Representation?

Once you hire a Real Estate Agent or Real Estate Broker to represent you throughout your real estate transaction you will have to make a choice on which form or representation you would like. The decision you make could affect the sale and outcome of the real estate transaction and your enjoyment of the property. I have also designed diagrams for better understanding of the Agency Relationships within a real estate transaction.

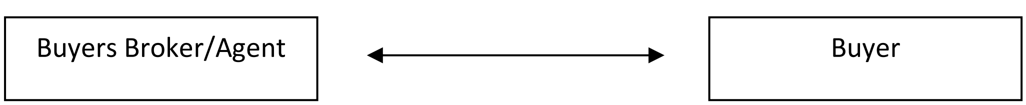
Seller's Broker: A broker who lists a property or a salesperson that is licensed to the listing broker represents the Seller and acts on behalf of the seller. A Seller's broker or agent owes to the Seller the fiduciary duties described on page 6.



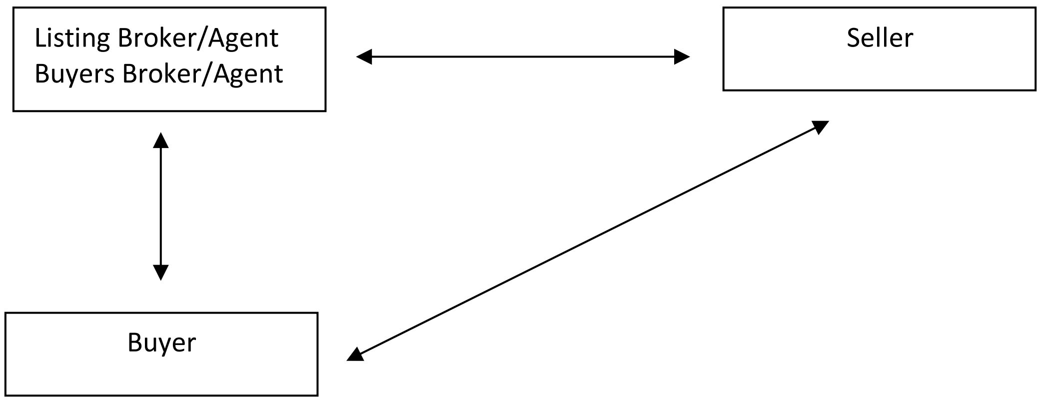
Subagent: A broker or agent who is working with a Buyer but represents the Seller is Sub-Agency. In this case, the Buyer is the broker's *customer* and is not represented by that broker. If a broker or agent working with the Buyer as a customer is representing the Seller, he or she must act in the Sellers best interest and must tell the Seller any information that is disclosed to him or her by the buyer. The Buyer will not be represented and will not receive advice or counsel from the broker or agent. It is not until the Agency Relationship switches to Dual Agency that a buyer will then receive advice or counsel from the broker or agent and can then be represented. See the diagram for *Dual Agency* to compare.



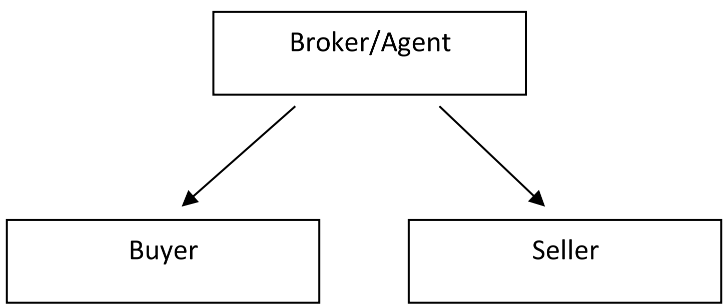
Buyer's Broker: A Buyer may enter into an agreement for the broker or agent to represent and act on behalf of the Buyer. The broker may represent the Buyer only, and not the Seller, even if he or she is being paid in whole or in part by the Seller. A Buyer's broker owes to the buyer the fiduciary duties described on page 6.



Dual Agency: Dual agency occurs when one broker or agent represents both parties to a transaction, or when two agents licensed to the same broker each represent a party to the transaction. Dual agency requires the informed consent of all parties, and means that the broker and agent owe the same fiduciary duties to the Seller and Buyer. This role limits the level of representation the broker or agent can provide, and prohibits them from acting exclusively for either party. See the fiduciary duties below that are owed to all parties.



Facilitator: A broker or agent who performs services for a Buyer, a Seller or both but does not represent either in fiduciary capacity as a Buyers Broker, Sellers Broker or Dual Agent is a facilitator. Confidentiality is the only fiduciary duty owed to a Buyer or Seller during a Facilitator contract unless otherwise included in writing in the contract. This form of Agency Representation is generally used when an agent or broker is hired to do paperwork only for a real estate transaction.



Fiduciary Duties:

Loyalty – broker/agent will act only in the client(s) best interest.

Obedience – broker/agent will carry out all client(s) lawful instructions.

Disclosure – broker/agent will disclose to client(s) all material facts of which broker/agent has knowledge which might reasonably affect the client(s) use and enjoyment of the property.

Confidentiality – broker/agent will keep client(s) confidences unless required by law to disclose specific information (such as disclosure of material facts to Buyers).

Reasonable Care – broker/agent will use reasonable care in performing duties as an agent.

Accounting – broker/agent will account to the client(s) for all client(s) money and property received as agent.

What is the difference between a Mortgage Broker, Loan Officer, and Retail Lender?

There are many avenues in obtaining money for the purpose of purchasing real estate in the United States. I will now discuss the most common options available to the general consumer in today's market. It is important to understand there are many options available for obtaining money and loans, but the choice is usually based off personal preference or previous relationships.

Mortgage Brokers: An MB acts as an intermediary who brokers mortgage loans on behalf of individuals, businesses and financial institutions.

Loan Officer: LO's generally work for banks and other financial institutions and approve loans to individuals and businesses. Loan officers specialize in commercial, consumer and mortgage loans.

Retail Banking: RB's generally do banking and execute transactions directly with consumers, rather than corporations or other banks.

What is the difference between a Mortgage Broker and a Loan Officer?

A mortgage broker works as a conduit between the buyer and the lender and a loan officer typically works directly for the lender. Most states require the mortgage broker to be licensed. States regulate lending practice and licensing, but the rules vary state by state. Most states have a license for those who wish to be a "Broker Associate", a "Brokerage Business", or a "Direct Lender".

A mortgage broker is normally registered with the state, and personally liable (punishable by revocation or prison) for fraud for the life of a loan. A loan officer works under the umbrella license of their current institution, typically a bank or direct lender. Both positions have legal, moral, and professional responsibilities as well as liabilities to prevent fraud and fully disclose loan terms to both consumers and lenders. Additionally, agents of mortgage brokers may refer to themselves as "loan officers".

Mortgage brokers must be licensed through the new Nationwide Mortgage Licensing System and Registry (NMLS), pass the State and Federal licensing exam and FBI background check and take their 8-hour SAFE continuing education each year. The goal of the Nationwide Mortgage Licensing System is to "employ the benefits of local, state-based financial services regulation on a nationwide platform that provides for improved coordination and information sharing among regulators, increased efficiencies for industry, and enhanced consumer protection." Visit www.mortgage.nationwidelicensingsystem.org to learn more of what the NMLS has to offer and check out consumer updates.

Please remember to do a thorough background check prior to establishing any relationship with a mortgage professional. This can be done through your state commerce website or through the NMLS website.

Side Note: As of 2012 *Loan officers that work for a direct lender are required to be registered with the NMLS, but not licensed*.

What are the current types of financing in today's market?

You just met with a Mortgage Broker or Loan Officer and all you know is you're approved for a loan. Woohoo….that's awesome. You rush home and go online to search for properties, barely able to type as you're so excited. You find your dream home on the first search and it's absolutely perfect. It's even your favorite color and close to work, and wait, it's even in your desired neighborhood. It can't get any better than this. Oh the excitement, the joy, and the suspense….wow it's overwhelming. But, wait; I might not have enough money for a down payment on this home. But, wait; I don't even know how financing works and my mortgage broker or loan officer only told me that I am qualified up to $X amount of dollars. Now what do you do????? Read below.

Here are the current and most popular types of financing in today's market:

FHA 203B: This is a standard FHA insured loan where the buyer pays a down payment of 3.5% of the total home sale price. Example: Sale price $100,000, buyer down payment amount $3,500, amount of new loan financed $96,500. The lender will then allow 96.5% of the home sale price to be financed. With the minimal down payment, this type of financing allows the buyer to keep more cash in their bank account. By having a minimal down payment and less skin in the game there needs to be mortgage insurance on this loan. FHA (Federal Housing Association) insures the loan issued by a lender in case of default. Also, FHA does not give loans, they only insure loans.

FHA 203K: This is a rehabilitation loan for properties that need to be rehabbed prior to the homeowner moving into the property. All work must be done by licensed contractors. There is still a required 3.5% down payment and the lender finances 96.5% of the home sale price plus repairs into the loan amount. Example: Sale price $100,000, repair amount need $10,000, 203K loan amount $110,000, buyer down payment amount $3,850.

FHA 251: This loan is a 1 year ARM (adjustable rate mortgage) under the Federal Housing Administration. This means the loan adjusts yearly at the current interest rate given by the bank or broker and adjustable every year thereafter for the remaining life of the loan. It is designed to keep both the interest rate and payment low but adjust throughout the life of the loan. Be careful when choosing this type of financing as the monthly payment can adjust throughout the life of the loan for the better and for the worse.

FHA Loan Disclosure: If you're obtaining an FHA loan to purchase a property that has an HOA (home owners association) be sure to first check with the association to confirm they are FHA approved and they have a current FHA certificate. Not all associations allow FHA financing due in large part to FHA certificates, percentage of renters VS owners, and amount of foreclosures within a complex. Approved associations and developments can be found at www.HUD.gov under FHA/HUD approved condominium projects. Remember that FHA insures the lender that gives the loan, they do not give loans. As of 2012 FHA insured loans are only for single family or 1- 4 unit homes with 1 unit owner occupied. Under the current FHA guidelines all FHA insured loans MUST be assumable by future borrowers. FHA financing also requires a 1 year up-front PMI (private mortgage insurance) policy that is 1.75% of the total amount of loan financed. Depending on the LTV (loan to value) ratio the lender may also require the PMI to be paid *monthly* in addition to the yearly PMI fee due at closing. The monthly PMI is based off the sale price minus down payment and multiplied by .008% and divided over a 12-month period. Example: $100,000 sale price – required 3.5% down payment = $96,500 loan amount x 0.008% = $772.00 / 12 months = $64.33/month. You can use this example to estimate monthly PMI by plugging in different values. The 1 year up-front PMI fee covers the lender should the borrower default on the property at any time throughout the life of the loan for up to 1 year. The reason for PMI is simple. Since the borrower is obtaining a loan with a down payment that is less than 20% the risk of borrower default is greater than if the down payment exceeds the 20% amount. Once the borrower has 20% equity or 80% LTV the borrower may contact the lender to request the PMI be removed at the lenders discretion. The PMI is automatically cancelled when the loan reaches 78% of its original loan amount. The amount of PMI varies on the size of the loan amount so be sure to find out this amount ahead of time from your mortgage professional.

Also, each county across America has FHA maximum loan limits. These loan limits are set by the Federal Housing Association and can be found at www.FHA.com or www.HUD.gov. These loan limits change periodically so be sure to check the website regularly before you view properties in the county you are looking in. While checking, these websites make sure to check the current maximum FHA seller paid closing cost amount as well. As of June 1, 2012, the maximum seller paid closing cost amount is still 6%. The 6% seller paid closing costs can be used for pre-paid's, discount points and closing fees. The 6% seller paid closing costs allows the buyer to only have to come up with 3.5% down payment and have all your additional fees covered. The 6% seller paid closing costs can either be paid out of the sale price amount or added to the sale price amount to cover the additional costs. When adding closing costs to the loan it raises the APR (annual percentage rate) amount from what your current interest rate is to a higher interest rate as you will be paying interest on the closing cost amount over the life of the loan. It can take the interest rate from 4% to 4.25% so be sure to check this amount on the Truth in Lending disclosure provided to you by your mortgage professional. The amount of additional fees varies with the size of each loan amount so be sure to ask your mortgage professional what additional fees are included for the loan so you are prepared when you write your purchase contract.

The 3.5% down payment or closing cost amounts may be borrowed from a family member with and used as Gift Funds in the transaction. The family member must be an immediate family member and proof must be provided to your Mortgage Broker or Loan Officer. A Gift Funds disclosure will need to be filled out as well as proof of money being gifted.

Side Note: Since the Seller paid closing costs are an additional item requested by the buyer from the seller this is something the seller has to accept. Most of the time when doing an FHA loan the seller is willing to work with the buyer on the closing costs to make the transaction work.

Conventional Insured: This loan is a conventional loan with lender insurance on it. Generally, these loans have a less than 20% down payment and therefore require a lender paid monthly insurance fee for risk of borrower default. There are many conventional loan programs out there now that only require 5% - 15% down payment for a conventional loan. Just like FHA loans, these loans may require an up-front MI (mortgage insurance) fee because the minimal down payment and risk of default is higher. The MI can either be paid up-front or financed into the monthly interest rates. Be sure to ask your mortgage professional what the best option is.

Conventional Uninsured: This loan is a standard conventional loan. A standard conventional loan is 20% down payment with 80% financing. With the higher down payment, there is less risk of default so there would be no MI or PMI needed in this type of financing. As a general rule of thumb, the higher the risk of default the more additional insurance is required.

Home Ready Conventional: This is the most amazing loan program on the market today. There are 2 types of the loan program that are avaialbe.

Home Ready 3% <u>*without*</u> Mortgage Insurance BUT you have to take a 4 – 8 hour First Time Buyer class either in person or online.

Home Ready 3% <u>*with*</u> Mortgage Insurance BUT you have to take a 4 – 8 hour First Time Buyer class either in person or online.

The mortgage insurance can change in this loan program based off interest rate, credit, debt, and income qualifications. The mortgage insurance can be built into to the rate, paid monthly or paid at one time up-front. This is all related to which specific lender you are working with and what their lender overlays can be.

Most lenders also offer a one time $750 credit at closing for taking the First Time Buyer class. This credit can be applied to costs incurred at closing for loan related items.

ARM's: Adjustable Rate Mortgages also known as Variable Rate Mortgages cover a broad range of mortgages that are still available today. The general concept of the loan program is that it's fixed for a set amount of time with the ability for the mortgage to change based off a MI (market index). The MI can be tied to many different MI's that are available today. It is important when considering this loan to know which MI the loan is tied to as this can have a dramatic effect on loan payment and term. The most common types of ARM's are Hybrid ARM's, Option ARM's, 3 -1 ARM, 5 -1 ARM, 7 -1 ARM.

I/O: Interest Only Loans are exactly what they state they are. The consumer is charged interest only on the principle amount for a set amount of time with the option to pay the loan in full, refinance, or continue paying interest only on the principle amount at the end of the loans term.

DVA/VA: DVA and VA are the same acronym for Department of Veteran Affairs. The DVA does not give loans but rather guarantees their loans to Veterans. Like FHA, the maximum loan amount can change periodically county by county and year by year. As of January 1, 2012, the DVA maximum loan amount is $625,500. Unlike FHA, a VA loan does not require a down payment from the Veteran. The VA loan allows up to 103.15% financing without PMI and also allows a 2nd mortgage up to 20% of the sale price and up to $6,000 for energy efficient improvements.

A VA funding fee of 0 – 3.15% of the loan amount is paid to the DVA. This fee may be financed into the loan or paid for by the seller as long as the closing costs on the loan do not exceed 6% of the total sale price of the home. The qualifying limits for the loan amount are based on 41% of gross monthly income VS on a conforming loan it is 28%. For a VA Refinance the borrower may borrow up to 90% of reasonable value of the property. If a VA borrower refinances using a VA loan, the borrower may borrow up to 100.5% of the total loan amount. The 0.5% is a funding fee to the VA for their IRRR (Interest Rate Reduction Refinance). For more facts and info on DVA/VA loans visit www.DVA.gov.

Reverse Mortgage: A reverse mortgage is a form of equity release for a property that is paid off. It is a loan available to seniors aged 62 or older. It enables eligible homeowners to access a portion of their equity based off the loan to value ratios and appraised amounts. The homeowners can draw the mortgage principal in a lump sum, by receiving monthly payments over a specified term or over their lifetimes, as a revolving line of credit, or a combination of both. The monthly payments continue for the life of the homeowner or until they go into an aged care facility. For more info and disclosures visit www.HUD.gov as the site if very useful.

USDA/Rural Development: YES, the USDA gives and insures loans….pretty cool right. It's not just for farmers.

A USDA loan or Rural Development Loan is a government insured home loan that allows 100% financing on a property that is in a USDA approved area. No down payment is required and closing costs can be paid by the seller of financed into the loan amount. The loans are fixed rate, 30 year terms loans. Unlike FHA, Conventional or DVA loans, a USDA loan has to be given in a designated USDA rural area. For more info visit www.rurdev.USDA.gov for income restrictions, loan guidelines and USDA approved areas.

Home Path Mortgage: Allows a borrower to purchase a Fannie Mae-owned property with a low down payment, flexible mortgage terms, no lender-requested appraisal and no mortgage insurance. Expanded seller contributions to closing costs are allowed.

- Low down payment and flexible mortgage terms (fixed–rate, adjustable rate, or interest–only).
- Down payment (at least 3 percent) can be funded by the borrower's own savings; a gift; a grant; or a loan from a nonprofit organization, state or local government, or employer.
- No lender-requested appraisal.
- No mortgage insurance; ask your lender for cost details on loans without mortgage insurance.
- Expanded seller contributions for closing costs allowed.
- Available for primary residences, second homes and investment properties.
- Many condo project requirements are waived; ask your lender for details

HOMEPATH Renovation Mortgage: Allows a borrower to purchase a property that requires light to moderate renovation. The one loan amount includes both the funds for the purchase and renovation - up to 35% of the as completed value, no more than $35,000. This is similar to a FHA 203K loan.

- Low down payment and flexible mortgage terms (fixed- rate or adjustable-rate).
- Down payment (at least 3 percent) can be funded by the borrower's own savings; a gift; a grant; or a loan from a nonprofit organization, state or local government, or employer.
- Renovation amount based on appraisal "as completed" value.
- No mortgage insurance; ask your lender for cost details on loans without mortgage insurance.
- Expanded seller contributions for closing costs allowed.
- Available for primary residences, second homes, and investment properties.
- Many condo project requirements are waived; ask your lender for details.

For more information on the HOMEPATH Mortgage types contact a Home Path lender or visit www.HomePath.com for more details.

Financing overview: As you are now aware there are many different loan programs that are designed to benefit many different types of people and the stages of life they are in. There are also many different facets to the mortgage lending business and not all of them can be covered in this brief synopsis, which is why it is very important that borrowers think into the future and do a current financial assessment before considering the type of loan they are interested in. All too many times I see borrowers jump into a decision based off current financial status or payment amount and never assess future financial options before making a decision. There are many professional sites to visit and also mortgage professionals that are willing to help a borrower make their financial decision and weigh their options accordingly. Financial planners and tax professionals are also great resources to tap when contemplating which loan is the right loan for you. Remember to do your research and think before you decide on which loan type or program you choose. The decision can dramatically affect the outcome of current equity, future equity, and future salability of the property.

What are these sale terms: Short Sale, PFS, REO, HUD, HBO, CD, RTO and Corp. Owned?

PFS: Pre-Foreclosure Sale. A Pre-foreclosure sale is generally an approved sale by a seller's lender in which they have agreed to price, terms and conditions of the sale. These properties have a disclosed time frame from date of offer and is usually accepted within 10 - 30 days after receipt of offer pending seller and listing broker/agent have done all preliminary work required by the lender/investor. If this work has not been completed the sale time frame will be significantly drawn out. Under the HAFA guidelines (Home Affordable Foreclosure Alternative) incentive A.K.A (Graceful Exit Plan, Relocation Assistance, Dignified Transition) the seller can receive up $3,000 - $10,000. The review process for this incentive can take up to 30 calendar days and has to be completed and accepted prior to the sale approval.

Short Sale: This type of sale is exactly what it says. The seller's lender/investor agrees to take a loss equal to the comparable sales for the property within a 1 square mile radius. Unlike A PFS, a short sale does not have a pre-determined sale price or terms and conditions that have already been approved.

The amount that a short sale property can be sold at depends on many factors:

- Price of comparables in the area.
- Amount currently owed on the property.
- Length of time the property has been on the market. A general rule of thumb I use is 98% offer amount for first 30 days on market, 94% for 30 – 60 days on market, 89% for 60 – 90 days on market, 82% for 90 – 120 days on market and 75% for 120 – 150 days on market. Keep in mind this is a general reference but seems to always work on the sales I have performed. A good check point for this is to find out what the average price/sq/ft in your area is by using resource sites such as Zillow, House Values or calling your local real estate company.
- Whether or not the seller's lender has MI (mortgage insurance) on the property.
- Does the property have additional liens/encumbrances/assessments on the property that need to be satisfied in order to close on the property?
- Are there any outstanding Judgments against the seller or tax liens against the property that need to be satisfied prior to closing?
- Is the property an investment property with tenants currently occupying the property? If so, they may be entitled to moving fees or relocation expenses prior to closing.

All these factors and many more affect the short sale process. It is extremely important that a buyer and seller work with a qualified Real Estate Agent or Broker during a short sale transaction. The designation used is a CDPE (certified distressed property expert).

REO: Real Estate Owned. This type of property is what we call bank owed. It has either been given back to the bank by a seller or has gone through the state mandated foreclosure process. These properties are usually significantly discounted to sell quickly by REO experienced agents or companies. These properties are preserved and maintained by management companies until they sell. Many of these properties need a lot of work and only qualify for cash purchase or conventional financing due to the amount of repair needed.

Sometimes the amount of repairs needed will be listed on the property and sometimes paid for by the bank or financial institution that owns them.

Corp. Owned: Corporation Owned. These are properties that either a group of investors or a small bank have owned and agree to sell. This is still a form of a bank owned property but owned by a corporation that took the property back through the foreclosure process or state mandated redemption process and has legal right to the property and can sell. Many times, these properties need work. There are many forms and disclosures involved in purchasing these properties and generally the corporation selling the property has their own contract and addenda that go with the property. Ask your local Real Estate Agent or Broker about the differences in these forms as many times the state you live in has their own state approved contracts that have been approved by their state Realtor Association.

HUD: Housing & Urban Development. A HUD home is a 1-to-4-unit residential property acquired by HUD because of a foreclosure action on an FHA-insured mortgage. HUD becomes the property owner and offers it for sale to recover the loss on the foreclosure claim. Most HUD homes have a waiting period for Owner Occupant Buyers. HUD Homes are initially offered to owner-occupant purchasers (people who are buying the home as their primary residence). Following the priority period for owner occupants (usually 15 – 30 days on market), unsold property is available to all buyers, including investors.

Important Facts about HUD Homes:

- HUD does not warrant the condition of its properties.
- HUD will not pay for the correction of defects or repairs.
- A HUD home is generally sold as/is making a Home Inspection prior to closing an important part of the purchasing process.
- HUD does not grant new financing on their properties but a new homeowner can choose from multiple types of financing should the property qualify. Refer to page 10 - 11 for HOMPATH Financing options that are promoted on these properties.

HBO/TS: Human Being Owned/Traditional Sale. I devised the term HBO due to the fact that many properties throughout the United States are currently vacant, bank owned, or non-owner occupied. I use this term in place of "Real Seller" as "Real Seller" sounds boring nowadays. A traditional sale, which used to just be a normal real estate transaction prior to the recession of 2008 – current is the same as an HBO. It involves a real seller who is current on their mortgage and is ready, willing and able to sell the property to a qualified buyer.

CD: Contract for Deed. A contract for deed is a type of purchase where a buyer agrees to put a down payment towards a property and make monthly principle payments at an interest rate determined by the seller and state usury rate laws until the property is either paid off over time or financed at the end of the contract term. The contract term is between the buyer and seller. In a contract for deed the seller and buyer both retain interest and rights in the property until the day the buyer closes on the property. It is important to know the seller retains their right of ownership throughout the timeline of the transaction or until the property is sold. Should the buyer default on the contract or become delinquent on the monthly payments the property can then be retained back by the seller and all monies already paid are lost by the buyer. The contract for deed terms are up to seller and buyer to make agreements upon. I suggest having an experienced

Real Estate Agent, Broker or attorney draft the terms of the contract prior to being signed by both parties. It is important to know that a contract for deed must be recorded and notarized in order for it to be legally valid and for the buyer to have their rights retained in the property.

RTO: Rent –to-Own. An RTO involves a renter and a landlord/seller. A renter agrees to rent the property with future interest of purchasing the property. This is a great way for a renter to repair their credit, establish credit and save money for the down payment. There is still a deposit given by the renter of 1st and last month's rent given to the landlord/seller. This type of purchase can be done several ways:

1. A potential buyer can agree to rent the property from a seller for a set period of time or ending date. At which time, the buyer must either buy the property or move out or agree to new rental terms.

2. The monthly rent is generally not applied to the purchase price of the home, but these terms can be negotiated with the seller at time of contract.

3. The seller cannot charge a potential buyer a monthly payment based off an interest rate for the remaining Note/Mortgage on the property. The monthly rental payment should cover the costs associated with the property and any extra rental fees. Should a potential buyer move out earlier then the agreed upon date most times their deposit is automatically forfeited due to breach of contract.

Side Notes: It is very important to consult a qualified expert in each of these sale types. There are many different factors that can affect a transaction and your rights as a buyer, seller, landlord or renter. It is also very important to make sure you understand your rights as a buyer, seller, renter, landlord or renter. A licensed professional, attorney or tax accountant can help you make an informed decision if need be or answer your questions.

Understanding the timelines for closing on these properties cannot be overlooked. Make sure you are informed of the necessary timeline that goes with each property. If you're an annual renter or have a month to month rental or have to sell a property to buy another property these timelines can have a dramatic effect on the sale or purchase of the new property. Short sales take longer than traditional sales and bank owned properties have strict deadlines for closing. It is important to make sure your financing is in place prior to looking at bank owned properties because many times the deposit money is non-refundable should the buyer not meet their deadlines. Having your financing in place prior to looking at properties can be used as a negotiating tactic on behalf of a buyer. In a demanding market, such as we are in now, a buyer that can close quicker, have less delay for approval, quicker underwriting turn times and show willingness to proceed faster than the competition, may get the property of their choice over someone who is less prepared.

Your purchase contract is accepted. Now what do you do???

For Buyers:
You have found the perfect house for the perfect price. You met with your agent or broker and have signed all necessary documents to present to the seller. The seller has accepted your terms of the contract and signed the purchase contract and their agent or broker has returned the signed purchase contract making the deal official. Now what do you do???

Here is a 6-point generic outline for the buyer of what should be done or considered after the signed contract has been accepted. While each buying transaction is different and some are easy and some are difficult this will give a basic starting point for most real estate transactions.

1. Make sure you call your loan officer, mortgage broker or retail lender and have them issue a pre-approval letter for the seller and seller's agent. If you're doing a cash transaction make sure you have proof of funds delivered to the seller or seller's agent.
2. Depending on what state you live in you will have earnest money, good faith deposit, or down payment money that needs to be sent to the seller's agent. Make a copy of the check or certified funds or copy of wire confirmation if wiring the funds. Have your agent or broker send/forward this money to the seller's agent or broker immediately once the purchase contract is accepted by both parties and all contingencies have been removed.
3. If you have chosen to have a property inspection done contingent upon the inspection findings, then make sure you get this set up immediately so as to not cause any delays in the closing time frame. Once the inspection is completed and there are no repair requests issued to the seller, make sure you get a contingency release to move the closing forward. If there are repair requests to the seller make sure they are completed in a timely manner. If you have chosen to purchase additional personal property or items from the seller make sure there is a personal property addendum signed. If you are purchasing the personal property or items separately from the real estate transaction, then make sure you get an itemized receipt with cost of each item. Save this receipt for tax purposes.
4. After the inspection, you should deliver the signed purchase contract and copy of deposit money to your loan officer, mortgage broker or retail lender. If you are paying cash for the property, then you will only send a copy of the signed purchase contract and proof of funds to your Title Company or escrow closer along with wiring instructions.
5. If you are purchasing into an HOA make sure you receive copies of the Association by-laws, rules & regulations, and condo disclosures. Be aware of your rescission period for reviewing these documents.
6. Make sure your loan officer, mortgage broker or retail lender has updated financials to send to the underwriter. This updated financial package should include the following: 2 months' pay stubs or proof of income, 2 months bank statements, 2 years current year taxes (make sure you sign them), 2 years of W2's, proof of down payment or gift funds and a copy of deposit check.

For Seller's

Your home has been listed for a short time or long time depending on the market you are located in. You have finally received and accepted an offer on your property and agreed to the buyer's terms and conditions. You have discussed with your agent or broker all paperwork and everything seems in order. Now what do you do???

If you are selling your house and moving into a new home this is a 2-stage process for you because you are selling and now hopefully buying again. Follow this 5-step generic outline and then refer to the *For Buyers* section for your re-purchase outline of steps.

1. Make sure your agent or broker has received the deposit funds from the buyers and deposited them to the appropriate account.
2. If the property has an Association it is important to make sure to get the buyer the most current and updated Association documents including, by-laws, rules & regulations, and disclosures.
3. Make sure you allow all inspections to take place when they are scheduled by the buyer or buyer's agent. Also, make sure your agent or broker follows up with the buyer's agent after the inspection to get the contingencies released as soon as possible and make any necessary repairs requested by the buyer.
4. Have your agent or broker send the signed purchase contract to your Title Company or escrow closer to begin the title work and closing documents.
5. Have your agent or broker follow up with the buyer's loan officer, mortgage broker or retail lender as to where the buyers file is at with the underwriting and closing date.

Now that there has been an accepted purchase contract by both parties and the buyer's loan is in the processing stages, a closing date has been set and all contingencies have been removed, you will now move to your pre-closing duties.

What are your Pre-Closing Duties?

The pre-closing duties are different then the post contract steps. These duties are for both buyer and seller and should be followed to protect both buyer and seller. These are general duties your agent or broker should take care of but you must take responsibility so there are no excuses at closing time.

Buyers Pre-Closing Duties:

1. Updated Loan Documentation: I have stated this multiple times because it is extremely important for borrower to know how much these updated financials mean to an underwriter. Keep in touch with your loan officer, mortgage broker or retail lender every few days to make sure the loan is on track and no new updated info is needed. The underwriters can ask for information up to day of closing. If the info requested is not at your "fingertips" or easily obtainable the closing may be postponed. Your lender may also request a copy of the cancelled deposit check prior to closing verifying the deposit check has been deposited into the seller's brokers trust account or title company account. This verification is generally requested in a copy of the cancelled check, proof of deposit on bank statement, or copy of withdrawal and/or deposit slip.
2. Appraisal: You may have to pre-pay for the appraisal so be prepared to pay up-front. Make sure you receive a copy of the appraisal. You may be able to write a personal check to your lender or give your credit card info to pay for the appraisal. Be advised that if you are doing an FHA loan, the FHA appraisal may come back with FHA work orders prior to being signed off on by the underwriters. If these work orders arise, it will be up to the buyer's agent or broker and seller's agent or broker to negotiate the terms of these work orders being completed. It is important to note that once the work orders are completed as required by the FHA appraisal, an FHA appraisal re-inspection may be required. More than likely there will be an additional fee for this in the amount of $150 - $250. Be prepared to have this as an additional expense.
3. Homeowner Insurance Policy: Once you find an insurer that meets your requirements have them issue a policy and send the Insurance Declaration page to your loan officer, mortgage broker or retail lender. If you are purchasing a property that has an HOA then your loan officer, mortgage broker or retail lender may request a copy of the associations blanket insurance policy. Be sure to ask them or notify them of this as you do not want to be scrambling to order this at the last minute. When you purchase a property in an association you MAY HAVE TO also purchase an interior contents policy know as HO-4 policy. This covers the inside of your townhome or condo and all contents inside the townhome and personal belongs in case of fire, theft, flood, etc.
4. Association: If you are buying a property that has an HOA make sure you file all necessary New Homeowner paperwork with the association. Generally, you give them contact info for you to receive updated association documents and invites to meetings. You will also have to have an updated Current Dues Letter from the association given to your mortgage broker or loan officer. This can be ordered by buyer or seller or Title Company. There is a cost involved for ordering the Current Dues Letter.

5. Title: While it is the responsibility of a Title company to do the research necessary on a property to confirm it is free from previous liens, assessments and encumbrances it never hurts for the buyer to perform their own research. I suggest the buyer call the county to confirm there are no upcoming assessments or future assessments that are on the books. You can also attend upcoming city council meetings to find out upcoming city information.
6. Utilities: All too often I receive phone calls months after a closing takes place stating the new owners of a property are receiving utility bills from the previous owners. I strongly suggest a new buyer to call the Dept of Public works or City billing dept in the city they are buying in to confirm that all utility bills are paid or at least get a copy of the bills and make sure they get paid at closing. Otherwise, the new buyer may be held responsible for these amounts to the city. If they do not get paid, they may become levied on the property taxes.
7. Property taxes & Assessments: When you buy a property the taxes may be pro-rated to day of closing. It should be the responsibility of the new buyer to call the county and check to make sure there are no increases in taxes for the upcoming year. If there are upcoming tax assessments or increases in property taxes you will be forewarned in advance. This may lead to an increase in mortgage payment or escrow shortage with your lender. Your lender will then charge you an interest rate on the amount needed for an escrow shortage.
8. Down Payment Funds: It is important to check with your Title Company to see if they are going to request a certified check, wire transfer or personal check at closing for your down payment amount.
9. Closing Disclosure Statement: Make sure you review the closing disclosure settlement statement provided by your lender 24 hours prior to closing. Should any changes need to be made the buyer will have ample amount of time to have them changed and an updated closing disclosure issued by the lender. The closing disclosure settlement statement provides all the closing amounts and fees needed to close on your property. It also, lists the cash to close amount the buyer will need to obtain prior to closing.
10. Directions to title company: I recommend that a buyer find out where the title company is located prior to showing up for closing. Many times, there is road construction or traffic jams en route to the closing. Most closings take place in the morning or early evening and this is during peak traffic hours. You do not want to show up late to your closing.

Sellers Pre-Closing Duties:

1. Utilities: Make sure you call your Dept of Public Works in the city you live in. Make sure you also call your gas company and have them mark the shut off for the day of/after closing depending on what date you vacate. Also, call your cable or internet provider and notify them of removal or transfer of satellite dish or cable.
2. Taxes & Assessments: Make sure the title company pays all delinquent assessments, future assessments and any additional levied fees on the property. Many times, the Title Companies do not catch these fees.

3. Loan Payoffs: If you have a mortgage on the property that is being paid off please make sure you call your lender 2 weeks in advance to order a mortgage payoff. Let them know the date you are closing. If you already paid a monthly mortgage payment and order the payoff, you will get that money back from your lender a few weeks after closing.
4. Association Payments: Make sure you keep current on all association payments. If you close in the middle of the month and have to pro-rate the monthly association payment, then make sure it is on the Closing Disclosure Statement as a credit to the seller from the buyer. Also, make sure the association is aware that you are selling the property and that you have all documentation in order to transfer to the current buyer at closing.
5. Homeowner Insurance: Your homeowner insurance will be pro-rated from day of closing so you will receive a refund within 2 weeks after closing from your current insurance company. If you are re-purchasing you may be able to roll that amount to your new policy. Be sure to check with your insurance company.
6. House Maintenance: Make sure to keep your lawn mowed and home cleaned up. Do not do anything to the property that changes its condition from when the buyers previously viewed the property to write their offer. The buyers may want to view the home prior to the closing date for a final walk-thru.
7. Closing Disclosure Statement: Make sure you review the closing disclosoure settlement statement provided by your Title Company 24 hours prior to closing. Should any changes need to be made the seller will have ample amount of time to have them changed and an updated closing disclosure issued by the Title Company. The closing disclosure settlement statement provides all the closing amounts and fees needed to close on your property. It also, lists the cash to seller amount the seller will receive at closing from the Title Company.
8. Directions to title company: I recommend that a seller find out where the Title Company is located prior to showing up for closing. Many times, there is road construction or traffic jams en route to the closing. Most closings take place in the morning or early evening and this is during peak traffic hours. You do not want to show up late to your closing.

What are your Post-closing duties as a BUYER?

Congratulations now that you have made it this far. By now you are overwhelmed with information, stressed out and maybe even a little angry. It is important to know this: If a buyer and seller walk away from the closing table upset, it means the real estate transaction was fair for both sides.

This next part is very important for all buyers of real estate to know. Follow these next steps to make the next years of owning your home simple and effective.

1. Your title closer will hand you a package at the end of the closing with a ton of information. READ IT over the next few days or weeks. Make sure you know about your loan and which loan product you have chosen.
2. Take out the Closing Disclosure statement and put this in a safe place. You will give this to your accountant at the end of the year come tax time. This will allow the accountant to see what you have paid in closing costs, pre-paids and escrow. You may be entitled to tax incentives.
3. Immediately go to your bank of choice and start a HRSF (Housing Repair & Savings Fund). My general rule is to put 10% of the mortgage amount each month into this savings account (example: $1,800/month mortgage - $180/month HRSF). You will need it, I promise you. Things happen during the homeownership period and you do not want to be shocked when they do. Things break, need repair and cost money all the time such as: (broken appliances, insurance deductibles, broken A/C, broken furnace, leaky hot water heater, new carpet, new siding, replacing a roof, new windows, deck repair, upcoming assessments, etc.). If you cannot afford 10% of the mortgage amount, then start with 5%. Any amount is better than no amount.
4. Wait a week and call your new lender and set up auto withdrawal. If you have the payment set for auto-withdrawal or bi-weekly payment you will pay 1 extra payment each year. This will save roughly 7 years of payments on your property over the life of the loan. Example: A 30-year loan with bi-weekly payments set up will turn the loan into a 23.5-year loan. This will save you tons of money and interest payments. If you cannot afford to make bi-weekly payments, then I suggest planning to make 1 extra payment to principle each year. This will result in the same early loan payoff.
5. If you bought a property at a reduced price it is important to note that you may be eligible for a property tax abatement through the county you bought your property in. Go to the county website or even go down to the county tax department and inquire into this. It may save you thousands of dollars over the time you’re in the property. If you do not know what property tax abatement is, ask your county tax department for literature on this.
6. Each year you are in your property and homesteaded you may be entitled to a PTR (Property Tax Refund). Yes, this is true. It is called and MR-1 Property Tax Refund. You may be entitled to a refund on a certain portion of your property taxes at the end of each year. You can to www.IRS.gov and type in Property Tax Refund or go to your states Department of Revenue site and you can download the tax forms from their site. You will find out immediately what amount you qualify for and you may even be able to do it online for a faster response. *Income qualifications may apply.*

7. Order trash bins if you live in a non-association community. Shop for the best rate and best deal. Many times, you can get 2 free pick-ups for new homeowner service. Check into recycling for your local community as well. Many times, this is cheaper than paying for named brand service.
8. Call and have utilities transferred. This would be for gas, electric, water and cable. Many times, you will receive a welcome package from the city with their local vendors they work with or that are established in the area.
9. Transfer your mail over to your new address. Make sure you do this right away to not delay any new mail coming to your home. Your new lender may send out a welcome package as well and your first mortgage payment coupon.
10. Be pro-active in introducing yourself to your neighbors. Many times, neighbors are too busy to stop and say hello. This is not the 1950s anymore so bring the brownies to them or hold an open house to meet them all.

Follow these 10 post closing tips and you will be en route to a successful home owning experience. These tips are here to help you through the stressful times and make sure you have enjoyment in owning your new home.

Conclusion

At this point in time you should be extremely familiar with real estate terms, processes, and have a good understanding of your next steps and what questions you still need answers to. You should also be able to make an informed decision knowing the outcomes and results in advance. It is with this knowledge and understanding that I know we can work together to make your purchase, sale and property search a better and more informed experience.

Thank you for reading.

Remember to Be informed, Be accountable and protect your investment.

Legal Disclaimer: This book is not intended to provide legal advice or tax advice to anyone. A qualified attorney or tax professional should be used for any legal or tax related questions. This book is not intended to deter, persuade or convince anyone to make any legal decisions of any kind.

References & Websites

Here is a list of the websites provided in this book. They can be used for research or reference points to learn more about financing, rules and regulations.

Nationwide Mortgage Licensing System & Registry or NMLS
www.mortgage.nationwidelicensingsystem.org

Housing & Urban Development or *HUD*
www.HUD.gov

FannieMae
www.FannieMae.com

FreddieMac
www.FreddieMac.com

Federal Housing Administration or *FHA*
www.FHA.com

Department of Veterans Affairs or *DVA*
www.DVA.gov

United States Department of Agriculture or *USDA*
www.USDA.gov

Homepath Mortgages & Properties
www.Homepath.com