

# THINGS YOU NEED TO KNOW BEFORE BUYING A HOME





## What you should know when buying your Home

Many aspects of Buying Real Estate have changed dramatically over the past 10 years. The most notable of which is how we search for properties and how much information is available about the properties we find. Google reports that internet searches for real estate is up over 400% in the past two years.

However this wealth of information has not made purchasing your dream home less complicated.

Alabama is one of the few remaining states that employ the **Caveat emptor rule**. “**Buyer Beware**” All properties with the exception of new construction are sold **as is** and the seller or the friendly listing agent who’s sign is in the front yard is **not** required to tell you, the buyer anything about a property that does not directly constitute a safety or health risk.

The purpose of this book is to give you a basic working knowledge of what needs to be done, who is responsible for doing it and when it has to be done by. I am a Real Estate Broker and have spent a large portion of my professional life promoting for sale by owner, however the more I learn the more I appreciate the expertise brought to the table by an experienced Real Estate Agent. **Your Agent’s responsibility goes beyond finding your the perfect home, their primary job is to protect you and your money when something goes wrong.**





**Listing Agent:** Assist **Sellers** in marketing their property and selling it for the highest possible price under the best terms.

**Buyer agents:** Buyer's Agents assist **Buyers** by helping them purchase property for the lowest possible price under the best terms. Buyer's Agents work directly for the and have fiduciary responsibility to the Buyer they are paid by the Listing Agent. These agents are required to inform the purchaser of any and all information collected concerning the sellers or the property as it would affect safety, current negotiations or future value of the property.



When agents represent the seller and the buyer they are referred to as a transaction broker. They are no longer working for the seller or the buyer, at this point they are only working to complete the sale.

# Steps to Homeownership ~ Made Easy



1. Buyer obtains pre-qualification from Lender.
2. Buyer purchases desired home with a Real Estate Agent's help.
3. Contract is accepted / Home is placed in escrow.
4. Loan application is submitted to lender.
5. Lender orders title & property appraisal.
6. Loan materials are reviewed & processed.
7. Loan submitted to underwriting for approval.
8. Closing agent - signing, transfer of final materials.
9. Loan documents are signed.
10. The loan is funded & recorded.
11. Buyers get the keys to their new home.

***Purchasing a home can seem complex. Obtaining a mortgage shouldn't be.***



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**BANK**



Equal Housing Lender Information is subject to change without notice. This is not an offer for extension of credit or a commitment to lend.

**FDIC**



# Shopping for your new home

Finding your new home is often the most enjoyable part of the home purchase. There are multiple websites including [www.tradingearth.com](http://www.tradingearth.com) that will allow you to search all listed



properties. Make sure that you keep a few things in mind while you are searching. How much can I afford, how much is this house worth, how long is the commute time, is the school system acceptable, is there room for my entire family and is there adequate parking. Don't just think about where you are today but where you and your family will be five years from now.

Determining value can be a very difficult item in your shopping list. Do Not rely on a national pricing model. Zillow by its own admission stated that they are within 10% of the sale price only 50% of the time in many markets. Don't lose your dream home because Tullio or Zillow says that it is worth less than the asking price.

**If** you are using a Buyer's Agent they should prepare an CMA to determine not only how the home compares to others that are currently for sale but what the home will likely appraise for as well.

**If** you are not using a Buyer's Agent you should check properties that are currently for sale close to the subject property, ask for a copy of the tax records and ask the seller what information they used to justify their price.

Properties are defined by who owns them and what the current status of the lender is with the mortgage company. The type of property you are attempting to buy will determine what type of financing you will need, how likely the seller is to accept a lower price and often even what type of contract you will write your offer on.



## Identifying different types of properties

Properties are defined by who owns them and what the current status of the lender is with the mortgage company.

### Owner Listed Properties

This group of properties includes properties being marketed by the Owner (FSBO) and properties listed with a Real Estate company. The owner can be an individual or a corporation but not corporation that has taken over ownership specifically for the purpose of marketing the property. With this type listing, the seller ultimately has the authority to accept or reject an offer without third party approval. Owner listed properties are free to negotiate price, however all sellers and situations are different.



### New Construction

New Construction is considered an owner listed property and is the only type of property type exempted from Alabama's Caveat emptor rule. The



builder or anyone representing the builder is required to make full disclosure. Most new homes come with a minimum of a 2-10 home warranty which provides a one year workmanship warranty, two years systems warranty and ten years structural warranty. If FHA financing is used to purchase, a 2-10 loan will be required from the builder. Most new construction sells close to asking price, contractors are very hesitant to reduce the price of one home because it affects the value of the entire neighborhood. New construction normally require a builder specific contract.

## Short Sales

A short sale occurs when an individual or corporation sells a property for less money than is currently owed on the mortgage. A short sale requires both the owner record and the lenders approval.

The lender will not allow the owner

record to benefit in any way from the transaction other than being relieved from the responsibility of repaying the mortgage. The lender is ultimately the decision maker.

In this type of transaction the lender will require the property be listed with a Real Estate Agent and will require periodic reports to ensure that it is being marketed effectively. Once a offer has been placed on the property the Listing Agent will convey that offer to both the owner of record and the lender for approval. The owner of record who does not benefit financially from the transaction will typically agree to any reasonable offer however final approval comes from the lender who has an specific amount that they must net from the transaction. Best case scenario: there has been a previous offer on the property and the listing agent knows exactly what the seller will accept. Lenders **will not make repairs** to these properties and the owner of record typically has limited resources to do so. Short Sales are marketed below market value and banks will occasionally accepts offers significantly below asking price.



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## **Foreclosures**

Foreclosures are Bank Owned Properties, typically marketed through Real Estate Agents. The bank acting now as the owner of record will insist any offer to purchase the property include an addendum stating that the bank has no knowledge of the property and if the purchaser wishes to know something about the property it is the purchasers responsibility to find out. Home inspections become much more important with this type purchase. Foreclosures are typically marketed below market value and banks typically drop the asking price of these properties 2.5% to 5% a month depending on the price of the home. Banks typically will not take less than the next month's price reduction for a home however they will typically pay closing cost.



## **Right of Redemption**

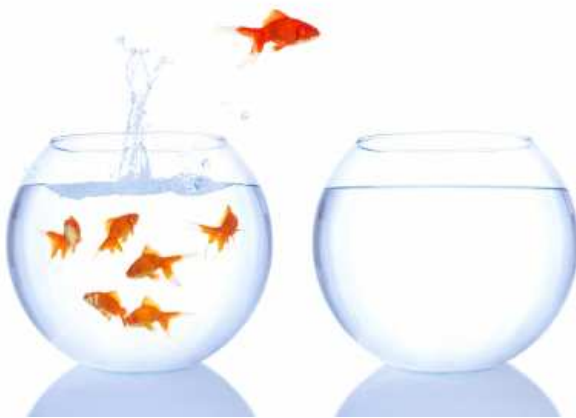
The state of Alabama is one of two states that have a one year right of redemption. The right of redemption allows the previous owner of record to reclaim his house within one year of the foreclosure date by making everyone involved in the transaction whole. This would include the entire balance of their previous mortgage, all legal cost incurred by the lender in the foreclosure process and any and all cost incurred by the purchaser including closing cost, moving expense and any necessary repairs required to make the property livable. It is extremely rare for a right of redemption to be exercised. The previous owner cannot use the property as collateral for a loan so they would have to pay cash to redeem.



## **Redemption Bond**

Most foreclosure properties are sold for less than the previous mortgage, further reducing the chances that someone will exercise their right of redemption. Occasionally a property will sell for more than the previous mortgage, when this occurs the new lender will require a redemption bond to be purchased. This bond ensures the new lender for the

## **Relocation Properties**



Relocation properties are properties that have been purchased from the previous owner by or for an employer relocating employees. Relocation properties are typically marketed at market value but typically will negotiate more on price being that they can absorb the cost as a part of doing business. Relocation properties typically have proprietary contracts and are

listed with a Real Estate agent or a marketing corporation. This is typically part of a compensation package provided by an employer, allowing the employee to start his job in a new community owner to travel to a new destination with a new job and buy a house in that community

## **Court Ordered Sales**

Court ordered sales include properties in probate, Medicare, bankruptcy and or litigation. These properties require third party approval and should be approached on a one on one basis. Court ordered sales are typically marketed at a discount to the remainder of the market.



# Financing

Now that your home search is underway, it is time to start speaking to lenders. If you have already made contact with a buyer's agent, ask them for recommendations. They do this every day and know who is good in your area and who is not.



Nationwide lenders do not always work with local appraisers, do not know what is customary for our area and are often difficult to contact after hours. Picking a lender on line simply because they have the best rate may end up causing you headaches and possibly delaying your closing.

## Getting Pre Approved for a Loan



All offers must be submitted with a pre approval letter and executive housing often requires them prior to showings. This is a very easy process that can be done over the phone . The lender will ask you a series of questions which will allow him to process your file and pull your credit. Now that your lender has some basic information, the two of you can determine what loan best meets your needs.

## Types of Loans

**VA Loans** 100% Max Financing  
Veterans Association Loans are backed by the US government require no down payment and the seller can pay up to 6% of the sales price to go towards closing cost, pre pids and or other debts to help borrower qualify for the purchase. VA loans are restricted to individuals either active in the military or have served in a branch of the armed forces who have received their DD-214



### **USDA 100%** Max Financing

United States Department of Agriculture Loans are backed by the US government require no down payment and the seller can contribute up to 6% of the sell price to go toward closing cost and or pre paid. USDA loans are only available in rural areas, your lender or real estate agent can tell you if a property qualifies.



Committed to the future of rural communities.

### **FHA 96.5%** Max Financing

Federal Housing Authority Loans are backed by the US government and require a 3.5% down payment and the seller can contribute up to 6% of the sell price to go toward closing cost and or pre paid.

### **Alabama Step Up 99.5%** Max Financing

works in conjunction with FHA. The step up program allows the buyer to borrow 3% of the 3.5% down payment required by FHA. The 3% is treated as a 2nd loan with the identical interest rate to the first. All other aspects of the FHA loan remain the same.



### **Conventional loans 97%** Max Financing

These loans are not backed by the US government and can be used to purchase homes that require higher loan amounts. The required down payment and seller contributions vary. Down payment varies between 3% and 20% and maximum seller contributions vary between 3% and 6%. Ask your lender for details.

### Conventional Home Loans

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Now that you have decided what type of loan you wish to use to purchase your new home, your lender will be able to discuss how much home you can afford, what the necessary down payment will be, how much of your closing cost can be paid by the seller and your approximate monthly payment will be.

## Closing Cost and Pre Pairs

**Closing Costs** are fees charged by the bank and outside vendors for services necessary to complete your financing, These items are normally paid at closing.

**Pre Pairs** are monies collected in advance by your lender and held in special bank accounts to pay your property taxes and your home owners insurance when they come due. The amount of money required from your lender to establish your escrow account for property taxes varies depending on what time of the year you close. Home owners insurance is paid a year in advance so you can expect your lender to require 12 months premium plus an additional 3 months premium to establish escrows for your homeowners insurance.



***Monies paid toward Closing Cost does not count toward down payment ! Sellers cannot contribute monies toward down payment required by lender. Sellers can contribute monies toward closing cost and pre paires.***

## Closing Cost

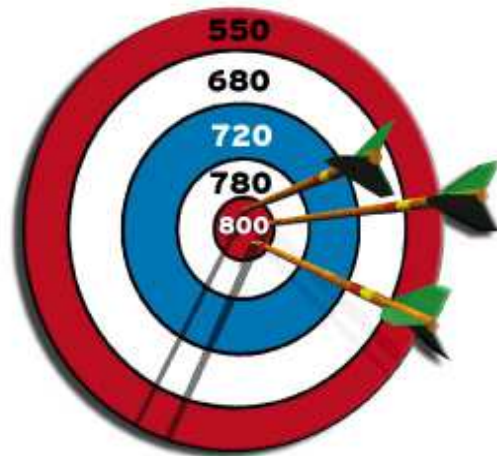
Closing cost are the responsibility of the purchaser unless stated otherwise in the contract. It is best to work with your lender to know what dollar amount you need to ask from the seller. Asking for more money than you need or more money than your lender will allow the seller to pay will only cause you to pay more for the property than is necessary.

## Who pays for closing cost?

This is primarily determined by the contract but different loans allow for different amounts, if you ask for too much and your loan will not allow it, that money will go back to the seller and you will have to pay the difference

## Credit Score

Your credit score is one of the single largest components of deciding if you will be approved for a loan, it also determines what your MI rate will be on conventional loans. Your credit score is determined by a mathematical model that takes into account your previous payment history and how much you currently owe relative to how much you can borrow. Some FHA loans can approve buyers with credit scores as low as 550.



Do multiple credit inquiries hurt your credit score? — According to Fair Isaac Corp., the developer of the score methodology dominant in the mortgage field today, says how multiple credit pulls are handled for a home purchase is one of the most widely misunderstood components of its system. The FICO models, Huynh said, ignore all mortgage-related inquiries during the 30 days immediately preceding the computation of the score and all mortgage inquiries during the 45 days preceding your loan application count only as a single inquiry.

There are local companies that can help remove derogatory items from your credit report. Ask your lender or realtor for a referral.

There are many things that can affect your ability to purchase other than your credit score. The amount of your income, how you are paid, how long you have been employed or a previous significant financial event such as a foreclosures, bankruptcy or short sale. Different loans view these events differently, so discuss these with your lender. He is your advocate and the more information you provide the better job they can do for you.

## What is MI or PMI

Mortgage Insurance or Private Mortgage Insurance is an insurance policy that is paid by the borrower but the lender is the beneficiary. These policies are designed to limit your lender's exposure if you should default on your loan. MI or PMI is typically paid until you own 20% of your property. MI or PMI rates for FHA loans and USDA loans do not vary based upon credit score, however the MI or PMI rate on conventional loans varies directly with credit score. MI or PMI can be paid up front when the loan closes, monthly or a combination of the two.

## How does the bank determine value

Your lender will contact an Appraisal Management Company who in turn will contact an appraiser to determine the value of the property in relation to other similar properties that have recently sold nearby. If the appraisal should turn out to be less than the sales price the contract is typically renegotiated or the contract is void. A financing contingency protects your earnest money in this situation.



## When is my first payment due?

Mortgage payments are made in the rear opposed to rent which is made up front. **Example:** You make your rent payment for January on January 1 however you make your January Mortgage payment on February 1. By utilizing this information and with some astute negotiating you can put off your first mortgage payment for almost two months. Mortgage payments are always due on the first day of the month and typically have a 5% penalty if not paid by the 15th.

## Where is closing?

Most closings in the state of Alabama take place in a Attorney's office. If a lender is used, the attorney does not officially represent the seller or the buyer, he represents the bank. This typically does not cause a conflict of interest due to the buyer, seller and mortgage company all desiring for all documents to be filed correctly to ensure the seller gets paid and that there are no encumbrances on your new property with the exception of your mortgage.

## Writing a Contract

**Writing an offer** is by custom in the Birmingham Metro area called writing a contract. This is because once the seller and buyer have signed the offer and initialed any changes that may have been made while negotiating it becomes a binding contract.



## Items that will need to be addressed in your contract or offer

**Selling price:** This is the price you are offering for the property

**Earnest Money:** This is the money given by the buyer to ensure that he performs as required by the contract. The earnest money should never be held by the seller. Real Estate Agents and closing attorneys keep accounts specifically for this purpose.

**Contingencies:** Is a list of things or items that could happen or might be discovered that would effect a buyer's ability or desire to purchase a property. If any of these things are discovered or come to fruition the seller agrees to return the purchasers earnest money and cancel the contract

## The two most important contingencies : financing and home inspection

**Financing:** Financing can be adversely affected from issues that arise with the property as well as issues that arise with the borrower.

**Appraisal:** If the appraisal comes back for less than selling price, contract is void. FHA and VA appraisals may require repairs to be made to the property, If these repairs cannot be done the contract is void.

**Title:** If the property's title is clouded due to a lien, a judgment or any break in the chain of title that cannot be explained the lender will be unwilling to accept the property as collateral and the contract is void.

**Problems with the Borrower:** There are many reasons that can cause a borrower to be tuned down after an initial loan approval has been issued. These would include an undisclosed piece of information coming to light, a loss in employment, change in income or an unexpected event that adversely affects credit. If the buyer can no longer get approved for a loan the contract is void.

**Home Inspection:** If the home inspection reveals items that make the buyer no longer wish to purchase the property or the seller and buyer cannot find common ground on a correction for the problem, the contract will be void. Additional inspections that might be needed: HVAC, mold, lead base paint, Chinese dry wall, Septic and Survey



***Inspections are performed by third party vendors and are typically paid for by the purchaser at the time the service is performed***



# Closing Cost

Remember closing cost are the responsibility of the purchaser unless stated otherwise in the contract. It is best to work with your lender to know what dollar amount you need to ask from the seller. Asking for more money than you need or more money than your lender will allow the seller to pay will only cause you to pay more for the property than is necessary.

## Who pays for closing cost?

This is primarily determined by the contract but different loans allow for different amounts, if you ask for too much and your loan will not allow it, that money will go back to the seller and you will have to pay the difference

**Personal Property:** Any items that you wish to remain with the property that are not permanently attached should be mentioned in the contract. This would include but not limited to blinds, curtains and patio furniture. Refrigerators are often a source of contention at closings, unlike other kitchen appliances they do not stay unless specifically mentioned in the contract.



**Closing Date:** This is the date you wish to close on your loan and formally take ownership of the property

**Occupancy Date:** This is the day you can start moving into the property. This date is the same as closing on vacant properties but may be extended several days when the sellers are still living in the property being sold.



# After the Closing

## When do I need to file for my homestead exemption?

File for your homestead exemption now! This is NOT the same line as car tags and there is never a line to file. Even if your new home has a homestead rate now, if you do not file under your name, the property will lose its homestead status and your property taxes will double.

### **Jefferson County**

716 Richard Arrington Junior Boulevard  
North #170  
Birmingham, AL  
TEL:(205) 325-5505

### **Jefferson County Bessemer Branch**

1801 3rd Avenue North #209  
Bessemer, AL  
TEL: (205) 481-4125

### **Shelby County**

102 Depot Street  
Columbiana AL 35051  
TEL: 205-670-6900



## What do I need to file for my homestead exemption?

The closing attorney will provide you with a copy of your deed at the closing. This is typically all you need to get your homestead exemption.

## When do I pay my homeowners insurance and property taxes?

If you have financed your property your mortgage company set up escrows to pay for your property taxes and homeowners insurance, they will make these payment for you when they are due. If you paid cash for your property or requested that your mortgage company not escrow: Property taxes are due in October but are not delinquent till December 31st. Your homeowners policy premium is due on the anniversary of your purchase each year.

## Can I change insurance companies after the closing?

**Yes**, however it is much easier to switch insurance carriers on the anniversary date of your purchase. As one policy expires, a new policy with a new carrier comes into force. You must notify your lender that you are changing insurance providers or they will pay your previous provider. If you switch providers during the year you will need to get a refund for the unused portion of your policy and apply that to your new policy. Your lender will expect your insurance to be paid in full and if there is any difference in what they have collected and what is due, they will look to you to make up the difference.

## What can I deduct from your income taxes?

Interest paid throughout the year, property taxes and mortgage insurance are all tax deductible.



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