Seattle Area Real Estate Team

Buyers Guide 2020

1. ARE YOU READY?

Knowledge and experience are the keys to successful real estate transactions. One of the keys to making the home buying process easier and more understandable is planning. In doing so, you'll be able to anticipate requests from lenders, brokers and a host of other professionals. Furthermore, planning will help you discover valuable shortcuts in the home buying process.

Do You Know What You Want?

Whether you are a first-time homebuyer or entering the current market as a repeat buyer, you need to ask why you want to buy. Are you planning to move to a new community due to a lifestyle change or is buying an option and not a requirement? What would you like in terms of real estate that you do not have now? Do you have a purchasing timeframe? Do you prefer a single story or a multiple-story house? Do you want a large yard for children or pets to play in? Are schools or access to public transportation important? Separate the essentials from the items you could do without and put them on the "must have" list. Prioritize the rest of the items into a ranking of priority by assigning it a 1-10 ranking. Whatever your answers, the more you know about the real estate marketplace, the more likely you are to effectively define your goals. As an interesting exercise, it would be essential to review the questions above and to then discuss them in detail when meeting with one of our brokers so you can both work towards achieving your goals.

Do You Have The Money?

Homes and the financing of them are almost always intertwined. Financing is the difference between the purchase price and the down payment, commonly referred to as the loan or mortgage. Down payment amounts have varied over the years as we witnessed the coming and going of many no down payment loan programs over the last 10 years. As of now, if you're looking at a Conventional Loan you'll have to put 20% of the purchase price down to avoid having to pay PMI (Private Mortgage Insurance). Although if you are willing to pay PMI (either monthly or in the form of a slightly higher interest rate) you can put as little as 5% down depending on your credit scores and the type of property you're looking for. There are also special conventional loan programs for first time home buyers or those with lower incomes that only require a 3% minimum down payment. There are also government lending programs that offer lower down payment options with fewer restrictions than the 3% down conventional products. The FHA Loan program requires only a 3.5% down payment and can be used on most houses that do not have any major safety concerns. Both the VA Loan program for veterans or current military and the USDA Guaranteed Rural program allow for no down payment purchases if the borrower and property qualify.

Not everyone, however, elects to purchase with little or no money down. Less money down means higher monthly mortgage payments, so most homebuyers often choose to buy with as much down payment as they can afford. In addition to a down payment, purchasers also need cash for closing costs (the final costs associated with closing the loan and purchase transaction). It may be possible to negotiate an offer for a home that requires the owner to pay some or all of the settlement expenses. Talk with one of our brokers for details or ways to set that up as part of your purchase agreement.

Is Your Financial House in Order?

The loans that are currently available do require one thing that the subprime loans available during the past several years did not- you need fairly good credit. In general a minimum credit score of 580 is needed for the Government loan programs and Conventional loan programs need higher scores than 640 to get good interest rates for them. For at least one year prior to purchasing a home, you should assure that every credit card bill, rent check, car payment and other debt is paid in full and on time. .

2. CHOOSE A BROKER

More than 2 million people in the United States have real estate licenses. However, real estate is a tough business with a steep dropout rate, and the result is that only a small percentage of those with licenses actively help buyers and sellers. The National Association of Brokers (NAR) includes 1 million brokers and salespeople, individuals bound together with a strong Code of Ethics, extensive training opportunities and a wealth of community information. Buying and selling real estate is a complex matter. At first it might seem that by checking online sites you could quickly find the right home at the right price and go after it by yourself. But a basic rule in real estate is that all properties are unique and no property can be fully and professionally evaluated by a computer algorithm which only looks at surface data. No two properties -- even two identical models on the same street -- are precisely and exactly alike. Homes differ; neighborhoods differ and so do contract terms, financing options, inspection requirements and closing costs. Also, no two real estate transactions are alike. In this maze of forms, financing, inspections, marketing, pricing and negotiating, it is essential to work with a professional who knows all the aspects of the real estate business and can guide you through it. Our Seattle Area Real Estate Team is made up of brokers that are experts in the real estate industry and have an in-depth knowledge of the current Seattle area market.

You may or may not know that some brokers represent sellers while others represent buyers. As a buyer, it is important that you have your own representation and Broker that represents your interests first. If you were to work with a broker representing the seller they have first duty to the seller so you become just a customer and not a client. Once selected your Seattle

Area Real Estate broker will provide you with information detailing current market conditions, financing options and negotiating issues that might apply to a given situation. Remember: Because market conditions can change and the strategies that apply in one negotiation may be inappropriate in another, this information should not be set in stone. During your time in the market, your Seattle Area Real Estate Team broker will keep you updated and alert you to each step in the transaction process and guide you through them from start to finish.

3. GET PRE-APPROVAL FOR FINANCING

What is it?

"Preapproval" means you have met with a loan officer, your credit, income and assets have been reviewed and the loan officer believes you can readily qualify for a given loan amount with one or more specific mortgage programs. Based on this information, the lender will provide a preapproval letter, which shows your borrowing power. You can visit as many lenders as you like and get several preapprovals, but keep in mind that each one carries with it a new credit check, which will show up on future credit reports and can hurt your credit scores. Although not a final loan commitment, the preapproval letter can be shown to listing brokers when making an offer. It demonstrates your financial strength and shows that you have the ability to go through with a purchase. This information is important to owners since they do not want to accept an offer that is likely to fail because financing cannot be obtained.

How do you get preapproval?

Real estate financing is available from numerous sources such as banks, credit unions and mortgage brokers that have worked with local brokers and in some cases individual brokers, who are licensed to do both. Licensing of loan originators is now a national requirement so be sure to check that the person you're working with is licensed to do so. The loan originator will carefully review your financial situation, including your credit report and other information. They then will then suggest programs which most-closely meet your needs. For instance, a first-time buyer may qualify for a government backed mortgage program with little money down and low interest rates, while a repeat purchaser (someone who has bought a home before) with more equity (money invested in the home) might want to get a 15-year loan and the lower overall interest costs it represents. Typically, first-time buyers opt for the traditional 30-year loan, with a fixed rate of interest over the life of the loan.

I suggest that buyers start the mortgage process well before making an offer on a home. By meeting with mortgage brokers or lenders -- either online or face to face -- and looking at loan options, you will find which programs best meet your needs, how much you can afford and get pre-approved. I also recommend preapprovals for another reason: Purchase forms often require buyers to apply for financing within a given time period, in many cases, 5 to 10 days. By meeting with a licensed loan originator in advance and identifying mortgage programs, it won't be necessary to quickly find a lender, check credit, and rush into a financing decision that may not be the best option.

4. LOOK AT HOMES

Some 6 million new and existing homes are sold each year. There is no shortage of housing options, but with so many choices the challenge becomes finding the property which best meets your needs. The housing market is complicated because the stock of homes for sale is always in flux. If it were possible to have a complete list of every home for sale at this very moment in a given community, such a list would become obsolete within seconds as new homes become available and properties now for sale are put under contract.

In effect, buyers are looking at a moving target in a marketplace that is never static. Because of this, it is important to know as much as possible about the choices in your preferred markets, and the way to do that is by working closely with a local Broker who has a good idea of the options available there.

What are you looking for?

A home is more than just a collection of bedrooms and bathrooms. Several properties -- each with four bedrooms, three baths, and the same price -- may well represent radically different designs, commuting distances, lot sizes, tax costs, interior dimensions, and exterior finishes. Each of us is different and so it's important to list the features and benefits you really want or need in a home. Consider such things as pricing, location, size, amenities and design (one floor or two, basement, craftsman, contemporary, Tudor, Cape Cod, etc.).

Next, it's important to consider your priorities. If you can't get a home in your price range with all the features you want, then what features are most important or that you must have? For instance, would you trade fewer bedrooms for a larger kitchen? A longer commute for a bigger lot and lower purchase price?

Lastly, consider your needs in several years. If you'll need a larger home, maybe now is the time to buy a bigger house rather than moving or expanding in the future. If you expect your income to increase, perhaps you should consider a more expensive home financed with a loan program where monthly payments could potentially increase in the future such as an Adjustable Rate Mortgage.

Where should you look?

All neighborhoods and communities have a special nature that gives them identity and value. One community may be well known for older, classic homes while another offers both suburban living as well as easy access to downtown office areas. It’s important that you visit the communities you’re considering, drive around them, walk around them or even spend an afternoon visiting the places that you would potentially go there. It will help to narrow things down and enable you to prioritize the communities that you want to focus on.

How do you find a house?

Some buyers like to search online by looking at listings on the basis of location or price; others prefer to have local their broker suggest properties; and many buyers prefer both approaches. Regardless of your choice, it's important to target your search. By using basic measures such as general location and affordability, you can refine your search and focus on homes that offer the most desirable features. Once you have an idea of what your needs and goals are I encourage you to share them with your broker. Brokers have access to the MLS in a much more in-depth way than even a robust website offers. We can search for properties based upon a wide range of criteria as in depth as which floor each bedroom is one or whether the yard is flat and fenced. As you spend more time working with your broker he or she will be able to know your preferences and needs to the extent that she can find properties for you which have the best potential to fit your needs. That way you can focus your efforts and property viewings on those houses vs. those that may not e as appealing. As you see houses, you should maintain a file with information on each of the homes you like. Most brokers will provide you with a report or flyer for the homes you are viewing and I always encourage clients to make notes of positive and negative aspects of each home they are interested in.

5. CHOOSE A HOME

Is it THE house?

A house is shelter, but a home is far more. It's where you live, relax, entertain friends, raise families, and work. A home is where you spend much of your life, and so choosing a house is an enormous decision. How do you know if a house is THE one? Probably the best approach is to look at as many homes as possible, and do online research through the Seattle Area Real Estate Team website, where you can quickly and easily view huge numbers of homes, check prices, take virtual tours and view neighborhood information.

Can you really afford it?

Remember Step 2 - the preapproval process? Getting preapproved means you have a very good idea of how much you can borrow, what loan programs will most likely work best in your situation and how much home you can afford. How reliable is a preapproval? While preapproval is not a loan commitment, it's still necessary for lenders to check such items as credit reports, income and asset documentation. Despite fluctuating interest rates, preapproval nonetheless provides a reasoned, careful analysis of what you can afford. After all, loan originators are typically paid only when loans are originated. It doesn't make much sense for loan officers to suggest high loan limits that later can't be delivered.

There's no doubt that choosing a home is a big decision and you want to do it right. As a buyer, here's what will happen. A home has been placed on the market for which the seller has established an asking price as well as other terms. In effect, this is an offer. At this point, you have three choices: accept the seller's offer and create a contract; reject it and not make an offer; or suggest different terms and make a counter-offer. If you choose this last option, the seller may accept, reject or make a counter-offer. This part of the home purchase process is complex, personal and variable with the bargaining going back and forth between buyers and sellers. This is the point where the value of an experienced Broker is clearly evident because he or she knows the community, has seen numerous homes for sale, knows local values and has spent years negotiating transactions

6. MAKE AN OFFER

Broker groups, such as the local MLS, working with legal counsel, have developed forms that are appropriate for realty transactions in specific communities. Such documents include numerous sale conditions, addenda and their wording should be carefully reviewed to assure that they reflect the terms you want to offer. Brokers can explain the general contracting process in your community as well as his or her role. While much attention is spent on offering prices, a proposal to buy includes both the price and terms. In some cases, terms can represent thousands of dollars in additional value for buyers -- or additional costs. Terms are extremely important and should be carefully reviewed.

How much?

You sometimes hear that the amount of your offer should be x percent below the seller's asking price or y percent less than you're really willing to pay. In practice, the offer depends on the basic laws of supply and demand: If many buyers are competing for a home, then sellers will likely get full-price offers and even more. If demand is weak, then offers below the asking price may be in order.

How do you make an offer?

In a typical situation, you will complete an offer that your broker or the seller’s broker will present to the owner. The owner, in turn, may accept the offer, reject it or make a counter-offer. Because counter-offers are common (any change in an offer can be considered a "counter-offer"), it's important for buyers to remain in close contact with their broker during the negotiation process so that any proposed changes can be quickly reviewed.

Acceptance

After you and the seller come to agreement on the terms of the transaction and it all signed around by both parties you are considered to be at “mutual acceptance”. You will likely need to make an “earnest money” deposit with either the company at which the closing will take place or with the real estate office handling your transaction. Earnest money is a deposit that protects the seller insures that you as the buyer will go through with the transaction and not leave it without cause. A cause to leave the transaction could be an adverse title report, an appraised value not up to purchase price, failure of financing approval or an inspection which you do not approve of.

How many inspections?

A number of inspections are common in residential realty transactions. They include structural inspections, checks for pests, surveys to determine boundaries, title reviews and appraisals to determine value for lenders. Structural inspections are particularly important. During these examinations, an inspector comes to the property to determine if there are material physical defects and whether expensive repairs and replacements are likely to be required in the next few years. Such inspections for a single family home often require three to four hours, and buyers should attend. This is an opportunity to examine the property's mechanics and structure, ask questions and learn far more about the property than is possible with an informal walk-through.

7. HOME INSPECTION

When you're ready to complete a purchase and sale agreement on a home, your offer will generally be contingent on a professional inspection of the entire property-including improvements.

The home inspector looks beyond the cosmetics to make sure that the home's general systems operate properly. The inspector will also look for large repairs that are needed and report on the condition of the home.

The standard home inspector's report will review the conditions of the home's heating and cooling systems; interior plumbing and electrical systems; the roof, attic and visible insulation; walls, ceilings, floors, windows and doors; foundation, basement and visible structure. The inspector will also look for cracks in cement walls, water stains that indicate leakage and any indication of wood rot.

A home inspection also points out the positive aspects of a home, as well as the maintenance that will be necessary to keep it in good shape.

As your Windermere agent, I'm familiar with home-inspection services and can provide you with a list of names from which to choose. Another good way to find a home inspector is to ask a friend, or perhaps a business acquaintance, who has had a home inspection and can recommend a home inspector they were satisfied with.

Remember, no home is perfect. If problems are found, we will help you navigate and negotiate through the process

8. FINANCING PROCESS

Because financing is so important, buyers should have as much information as possible regarding mortgage options and costs. Your work in the pre-approval process at the beginning should help to move the funding process forward provided that you continue working with the loan originator your pre-approval came from. Often the cost of real estate financing is routinely greater than the original purchase price of a home after closing costs and prepaid interest/taxes/insurance. So it's important that you are prepared for those costs or you may want to consider asking the seller of the property you are buying to pay for them.

What kind of loan?

There are many different kind of loans available out there from a variety of lenders, but in general, the mortgage you choose will likely be determined by at least several key factors:

· How much down? Loans with 3 percent down or less are standard options currently although the widely available no down payment financing of years past has largely disappeared other than a few limited options.

· If you are placing less than 20 percent down, lenders will want the mortgage guaranteed by an outside third party such as the Veterans Administration (VA), the Federal Housing Administration (FHA), the USDA (Rural Guaranteed Program) or a private mortgage insurer (PMI). Private mortgage insurance is required by a lender to protect against mortgage defaults. More than 2.5 million VA, FHA and PMI loans are generated each year.

· How's your credit? The best rates and terms are only available to those with solid credit. To get the best loan and rates available, make a point of paying credit cards, installment payments, rent and mortgage bills in full and on time. In order to make sure you have the highest possible scores when your credit report is pulled, you should have your credit card balances as low as possible in relation to your available credit. You should also review your credit report when it is pulled by the loan originator to make sure that it is accurate and if there are any mistakes they can be corrected. Some loan originators also offer credit improvement information with their credit reports which can be very helpful if you need to improve your score in order to qualify for the mortgage.

How do you get a loan?

To obtain a loan you must complete a written loan application and provide supporting documentation to the loan originator. Specific documents include recent pay stubs, rental checks and tax returns for the past two or three years if you are self-employed. During the application process, the loan originator will review your documentation with you to make sure that it can support your application including your monthly income and assets. One thing that many first time home buyers aren't aware of is that gross (pre-tax) income is used for income calculations with those people that are salaried W2 employees. For hourly employees the monthly income is calculated by looking at the Year To Date earnings and dividing by the number of months while also comparing that to your earnings during previous years. If you are self-employed your income will be calculated from your tax returns using the net income that was reported. Over the past several years lenders have started reviewing the tax returns of almost all borrowers so no matter your type of employment you should expect that if you have unusual income deductions or information reported that it may affect your loan approval.

After the application and disclosures are signed and you have provided copies of your documentation to the loan originator your loan then moves to underwriting review. While almost all loans are initially reviewed by an electronic underwriting system your loan will go in front of a person to review all of the details and aspects of it. The underwriter will determine what conditions (information, documentation, details) needed in order for the loan to be completed and funded. It's highly likely one of those conditions will be an appraisal of the value of the property, which as of government regulations introduced 2009, is done through the use of a third party Appraisal Management Company. Other conditions are likely to include a title report, documentation of property insurance and verification of employment. After all of the conditions have been completed and signed off by the underwriter the loan moves to closing.

9. GET INSURANCE

No one would drive a car without insurance, so it figures that no homeowner should be without insurance. The essential idea behind various forms of property and real estate insurance is to protect owners in the event of catastrophe. If something goes wrong, insurance can be the bargain of a lifetime.

What kind and how much?

There are various forms of insurance associated with home ownership, including these major types:

Title insurance: Purchased with a one-time fee at closing, title insurance protects owners in the event that title to the property is found to be invalid. Coverage includes "lenders" policies, which protect buyers up to the mortgage value of the property, and "owners" coverage, which protects owners up to the purchase price. In other words, "owners" coverage protects both the mortgage amount and the value of the down payment. Title insurance, while often seeming to be costly can prevent title "clouds" from affecting who has true ownership of a property.

Homeowners' Insurance provides fire, theft and liability coverage. Homeowners' policies are required by lenders and often cover a surprising number of items, including in some cases such property as wedding rings, furniture and home office equipment. Many insurance providers will offer discounts if you combine auto and homeowners with one company.

Flood insurance: Generally required in high-risk flood-prone areas, this insurance is issued by the federal government and provides as much as $250,000 in coverage for a single-family home plus $100,000 for contents. As expected, houses next to rivers will need flood insurance, but it is not limited to "waterfront" properties and may include those a broader distance away from a body of water.

Home warranties: With new homes, buyers want assurance that if something goes wrong after completion the builder will be there to make repairs. But what if the builder refuses to do the work or goes out of business? Home warranties bought from third parties by home builders are generally designed to provide several forms of protection: workmanship for the first year, mechanical problems such as plumbing and wiring for the first two years, and structural defects for up to 10 years.

Home warranties for existing homes are typically one-year service agreements purchased by sellers. In the event of a covered defect or breakdown, the warranty firm will step in and make the repair or cover its cost.

Insurance policies and warranties have limitations and individual programs have different levels of coverage, deductibles and costs. For details, ask your broker, insurance brokers and home builders.

How do you get insurance?

The time to have insurance and warranty coverage is at closing, so speak with a Broker or insurance broker prior to closing. Be sure to ask about limitations, costs, deductibles and “endorsements” (additional forms of coverage that may be available).

10. CLOSING & BEYOND

Go to a local courthouse and you can find property records detailing real estate ownership in your community — sometimes records that date back hundreds of years. These records are important because they provide today’s owners with proof that they have good, marketable and insurable title to the property they are selling. Equally important, such records enable buyers to provide proof of ownership when they sell.

The closing process, which in different parts of the country is also known as “settlement” or “escrow,” is increasingly computerized and automated. In many cases, buyers and sellers don’t need to attend a meeting at the same time; at times signed paperwork can be sent to the closing broker via overnight delivery.

In practice, closings bring together a variety of parties who are part of the “transaction” process. For example, while the history of the property ownership has been checked, it’s possible that the records contain errors, unrecorded claims or flaws in the review itself, thus title insurance is necessary. At closing, transfer or excise taxes must be paid and other claims must also be settled (including closing costs, legal fees and adjustments). In most transactions, the closing broker also completes the paperwork needed to record the loan.

What you need to do.

One of the best parts of settlement is that buyers and sellers need to do very little. Before closing, buyers typically have a final opportunity to walk through the property to assure that its condition has not materially changed since the sale agreement was signed. You may also be inspecting work or repairs completed after the inspection process. At the closing itself, all papers have been prepared by closing brokers, title companies, lenders and lawyers. This paperwork reflects the sale agreement and allows all parties to the transaction to verify their interests. For instance, buyers get the title to the property, lenders have their loans recorded in the public records and state governments collect their transfer taxes.

What to expect.

Settlement is a brief process where all of the necessary paperwork needed to complete the transaction is signed and notarized. Closing is typically held in an office setting, sometimes with both buyer and seller at the same table, sometimes with each party completing their papers separately. Whatever the case, the result is that title to the property is transferred from seller to buyer. The buyer receives ownership and the seller receives payment for the home. From the amount credited to the seller, the closing broker subtracts money to pay off the existing mortgage and other transaction costs. Deeds, loan papers, and other documents are prepared, signed and filed with local property record offices.

What's next?

You've done it. You've looked at properties, made an offer, got it accepted, obtained financing and gone to closing. The home is yours. Is there any more to the home buying process? Whether you're a first-time buyer or a repeat buyer, there are several more steps you'll want to take.

Those papers you received at settlement are extremely valuable, so hold on to them! In the short term they can help establish tax deductions for the year in which the property was purchased. In the future, such papers will be important for tax purposes when the property is sold, and in some cases, for calculating estate taxes.

Also at closing, determine the status of the utilities required by the home, items such as water, sewage, gas, electric and oil service. You want utility bills to be paid in full by owners as of closing and you also want services transferred to your name for billing. Usually such transfers can be done without turning off utilities. Your broker can provide contact numbers and related information. About two weeks after closing, contact your local property records office and confirm that your deed has been officially recorded. Such records are public notices that show your interest in the property.

It is generally understood that sellers will leave homes "broom clean" when moving out. This expression does not mean "vacuumed" or "spotless." Broom clean makes sense because it means the house is ready to be painted and cleaned.

For most owners a home is the largest single asset they hold, so it makes sense to protect that asset. Many owners make a photo or video record of the home and their possessions for insurance purposes and then keep the records in a safety deposit box. Your insurance provider can recommend what to photograph and how to secure it.

You want to maintain fire, theft and liability insurance. As the value of your property increases such coverage should also rise. Again, speak with your insurance professional for details. Lastly, enjoy your home. Owning real estate involves contracts, loans, and taxes, but ultimately what's most important is that home ownership should be a wonderful experience. If you have any questions after the transaction is complete, please don't hesitate to contact your Seattle Area Real Estate Team broker.