

WHAT TO EXPECT WHEN YOU'RE EXPECTING TO *BUY A HOUSE*

The homebuyers' guide that answers the questions of first-time homebuyers.



By **Fox Residential Services Group, LLC**

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Introduction

Occasionally we hear from home buyers, "I wish someone had told me _____ before I started this process! There were so many things I had to find out the hard way!" This booklet is an attempt to explain and answer the most common questions of first-time homebuyers.

While preparing to write this guide we consulted with home buyers, home sellers, real estate agents, mortgage consultants, and general information available online. Nothing here is new or secret information. We have attempted to simplify it and put it all in one easy-to-read document.

At the end of the booklet we have listed two ways for you to contact us with suggestions for improvements to this product. We really do want to hear from you! So, take notes for any suggestions that you have as you go through this guide and send them to us, either as a group or as you think of them. All input is welcome!

You're about to buy your first home! This is so exciting!

Here we go...



Get Pre-Approved

Some people say you should find a real estate agent first, but I believe that you need to have some idea what you can afford before you start looking at homes.

At the time of this writing, the housing market is definitely in the home seller's favor! Some areas of Houston are experiencing price wars, with potential buyers bidding for the home! One thing that can push you over the top, given that everything else is equal, is having a mortgage pre-approval. Home owners want to sell in the shortest amount of time, in most cases. If you win the bid and then look for a home loan the sale will take longer than if you already have a loan lined up. Even in a slower housing market, a mortgage pre-approval looks better to the seller; it means that you are serious.

How much house can you afford? When I bought my first home I drove to various possibilities with my real estate agent and fell In Love with a wonderful house! Then, after getting together with a mortgage professional, I found out that the house I absolutely loved was out of my price range. So depressing! Find out what you can afford and stick within your price range. You'll be happier.



How do you find a mortgage professional? The best way is to ask your friends and associates. You may want to do some research on a consumer oriented website. Referrals from people you trust are invaluable! Use the phone book or an online search to find contact information AFTER you have a referral. Don't know anyone in Houston? Check out our section on Mortgages: <http://foxinspectiongroup.com/houston-contractor-referrals.html>. Everyone on our list is either a personal acquaintance or recommended by someone we trust.

Once you find a mortgage professional, get a comprehensive list of documents you will need to provide them and time-frames for when those documents are due. Get the documents in early! You don't want to find the perfect home and lose it because you didn't get a necessary document to your mortgage professional in time to meet the needs of the home seller. Get a list and check it twice!

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Know Your Costs, Immediate and Long-Term

The price you and the home seller agree upon is not the price you pay for the house! There are fees to pay before the sale, at the closing, and after you move into your new home.

Before the sale: You have found your perfect home. You need to give the seller a small amount to hold your claim until the closing. This amount is applied to the final sale price of the home. You also need to write another check to cover the Option Fee. This gives you a chance to have your inspections and re-negotiate the price of the home. This fee is not applied to the sale price of the home. (Consult with your Real Estate Agent about what amounts are appropriate.)

Purchasing an Option Period—generally 7 to 14 days—during which you have inspections performed is accepted practice, and smart. Unless you are the kind of person who enjoys crawling through hot attics, under houses, and walking on roofs, you will be well served to pay a professional to do it. Even if you do enjoy those activities, how much do you know about building codes and best practices? Most home owners know how to live in a home, not how to inspect one. Get your new home inspected so that you know what you are buying!

The Home Inspection: Don't go cheap on this! A home is generally a person's most expensive commitment (with the possible exception of a spouse—hahaha), so it is entirely appropriate to back up your 'gut feeling' with your pocket book. You want the home thoroughly gone over, top to bottom. You want a wood destroying insects inspection. If your new home has a swimming pool you want to get a pool inspection. If you are buying in a rural area you may need to get a well & septic system inspection, too. This is a minimum. Depending upon the age of the home and the presence or lack of TLC throughout the years, other inspections may be necessary. As a rule of thumb, be prepared to spend 1% of the purchase price of your new home on inspections.



At closing: There are a plethora of fees applied to your loan at closing. Taxes, insurance, survey, home association dues, credit reports, appraisal, loan origination fee, lender's inspection fee, document preparation fee, flood certification fee, recording and filing fees... the list seems never-ending. You will also need to have a check at closing to cover the percentage of the purchase price that you are required to pay in order to qualify for the mortgage, your down payment.

What to Expect When You're Expecting to Buy A Home

After the sale: Unless you're buying the home completely with cash, you will have a mortgage payment to make every month. This may include the cost of the state & local taxes and insurance premium, or it may not. Either way, you will need to have these costs covered. Your home owners association will expect a check from you once a year. If you are in a gated community or high-rise building you will have monthly maintenance fees. Remember when the water heater in the home you were renting went out? Your landlord paid for it, right? Now that you own a home YOU are the landlord!

Talk to your friends and relatives who own homes about how much regular home maintenance costs. In fact, this is a good thing to take into consideration before you decide on a home. If your mortgage payment, association fees, maintenance fees, and normal wear and tear repair costs are going to take you over your budget, look for a more affordable house.



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Your Representation

Unless you are a Real Estate Attorney or Real Estate Agent, you absolutely need to hire a professional! Here again, ask people you know for a referral. 20% of the available agents do 80% of the work. Hire one of the 20%. They know the neighborhoods. They know how to haggle for the best price. They know how to fill out the paperwork. They have systems in place to make life easier for you.

The last home I purchased, I hired the sister-in-law of a friend. I knew that her family was having a rough time of it financially and I wanted to help. I found the houses I wanted to see and arranged with her to get in to view them. I had to re-do the paperwork when it was submitted incorrectly. I had to work with my mortgage professional to renegotiate the selling price after the home inspections. I did most of the work the agent would normally do and she got paid for it. Okay—I wanted to help! Luckily, I work in the real estate field and this was not my first home purchase. I knew the steps. As a first time purchaser, you really don't want to dance all alone to that music!

Once you find the home you want, your Real Estate Agent will help you determine how much to offer for the home. Asking prices are normally starting points for negotiations to begin. How much lower than the asking price is a good place for you to start? Will your offer be so low that the seller is insulted and you lose before you start, or will your offer be so high that the seller thinks he won the lottery? Your Agent knows how this part of the game is played. Fill out the forms, write your checks, and wait for the sellers' counteroffer.

Now do your homework: Go online to the sex offender registry to find out if anyone in your new neighborhood is on the list. Drive by at different times and on different days of the week. What are your neighbors like? Are there train whistles, loud neighbors, barking dogs, or other noises that would bother you? Do the streets flood on heavy rain days? Ask the sellers if there are known criminals in the area, if there is a cell tower, natural gas well, or water tower nearby, and if any non-residential construction is scheduled to be built in the neighborhood. Get a copy of the rules and regulations of the home owners association and read them. Your Real Estate Agent can help you with this. If you find anything you can't live with walk away at this point. Sure, you'll lose some money, but you will be much happier in the long run than if you buy a house you shouldn't have.

*20% of the agents do 80% of the work.
Hire one of the 20%.*

What Is An 'Option Period?'

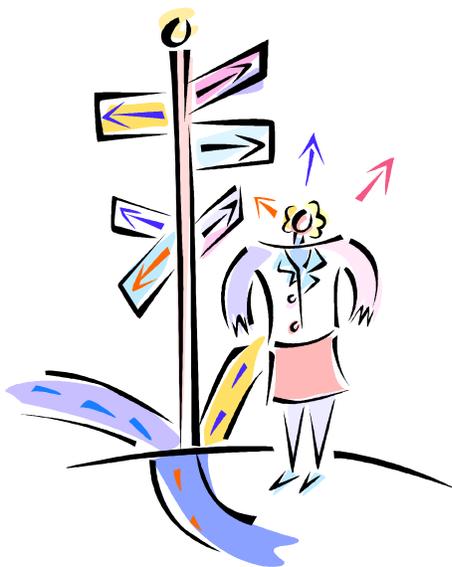
The Termination Option, or Option Period, gives the buyers the unrestricted right to terminate the home purchase contract within a specified number of days.

After the buyer has decided on a home, he/she/they complete a purchase contract (with the assistance of the Real Estate Agent) and generally include a request for a 7-14 day option period, during which time the inspections are performed and any negotiations can take place. The buyer gives the seller a check for the Option Fee to secure this time. If the buyer decides to not buy the home the option fee is forfeit.

How long should you request for your option period and how much money should you dedicate to it? It is best to rely on your Real Estate Agent for these answers. Your agent knows the buying climate at the time of your home purchase. Is it a 'buyer's market' or a 'seller's market' right now? Are there other potential buyers lining up to buy this home if you decide not to? Has the home been languishing on the market for a long period of time? How quickly can all the necessary inspections be completed? A good general rule of thumb is about \$100 to secure a 10 day option, but we have seen options as short as 3 days at higher fees.

After the inspections are complete, you will need to decide which issues in the reports you want to address with the sellers. In most cases, you will want to ask the seller to make 'reasonable' repairs or negotiate the purchase price to

include the cost of making these repairs yourself after you take possession of the home. Some of the items on the inspection report will be minor and some will be 'grandfathered' code issues that may not need to be fixed.



The seller is under no obligation to make any repairs or negotiate at all. If you decide to purchase the home with no concessions from the seller you buy the home "as is." If you decide to terminate your contract after the inspections are performed you have the right to say, "No thanks, I decided I don't want to buy your home after all." You need not give any reason for cancelling the contract. The seller keeps the option fee.

The Home Inspection

Although most lenders no longer require them, it is very important to get a home inspection before you purchase your home. The real estate industry does not require Realtors to understand structural, electrical, plumbing, roofing, or any other aspect of a home's construction. Likewise, most buyers are not building code or common practice experts. Just as you hire a doctor for your medical needs and an attorney for your legal needs, it is wise to hire a home inspection expert for your 'due diligence' needs.

Make sure you hire an Inspector who works for a qualified licensed Inspection company. The Inspection report should be in a user friendly format that is easy to read and understand. Inspection report examples can be found here: <http://foxinspectiongroup.com/sample-home-inspection-reports.html>.

Saving a few dollars on an inspection is like saving a few dollars on a dental visit. It might cost you thousands in the long run.

- Tirey Counts

The Inspector is legally required to mention each issue that does not meet current building codes, no matter what the codes were when the home was built. For this reason, a 30 year old home which is in very good shape could have a home inspection report over 35 pages long!

The inspection report must cover everything that can be seen with the experienced eye and using such instruments as the Inspector carries. It will include color photographs and appropriate graphs and drawings. If the Inspector is concerned about something that he/she can not see you will be advised to get an additional inspection, perhaps a stucco inspection performed by a specialist or an underground sewer line test by a plumber.

It is easy to take the length of the report or the recommendation to hire additional specialists as a sign that the home would not be a smart purchase. This is not necessarily so. The Inspector does not include all the wonderful aspects of the home in the report—just the issues that don't meet current standards. Which of these issues is important to you is up to you to decide. For instance, if you have small children the spacing between stair balusters will be more important to you than if you rarely have children in your home.

Discuss any issues of importance to you with your Realtor.

Homeowners Insurance

Do you need Homeowners Insurance? Are you borrowing money to buy the home? If yes, your mortgage provider will require you to buy insurance to cover the cost of the home if something happens to it. Can you afford to replace the home and all of its contents? If not, you need insurance. Do you have money set aside to pay for any conceivable accident that may arise involving any guest on your property? No? Then you need homeowners insurance.

Homeowners insurance covers more than just the cost of the home. It covers everything you have in the home: your giant flat-screen TV, your Norman Rockwell collection, your grandmother's china. It covers the medical bills and possible court and attorney costs if a guest in your home trips on your child's toy and breaks an ankle.

How do you select an insurance provider? If you already work with an insurance company that you like, ask them if they sell homeowners insurance. If they don't, ask for referrals from your friends. Your real estate agent probably knows a good insurance agent, as he/she works with them on a regular basis and has the benefit of feedback from all of his/her previous clients.

Discuss your situation thoroughly with the insurance agent that you select. If all of your furniture came from garage sales you don't need as much coverage as if you collect antiques. Do you want the insurance to cover the replacement cost of the items lost or the actual cash value of these items? If something happened to your home and you needed to move out for a while, do you have somewhere to stay or would your insurance policy need to cover living expenses while you are displaced? The more your insurance agent knows about your priorities the better he/she can serve you.

Buying in the Houston area? Flooding is not covered in most homeowner policies. Instead, you have to purchase separate flood insurance from the federal government's National Flood Insurance Program. Your insurance agent can help you with that, too.

Hopefully a tornado will never rip your attic to shreds, and a tree will never turn your living room roof into kindling. But if they do, you'll be glad you have insurance.

-John Perritano

The Survey

A property survey is a sketch or map of a piece of land showing the property boundaries and physical features. Residential documents typically show the location of houses and other structures, too. In most cases, these maps are treated like official records and can be used to settle property disputes, figure out land values, and determine ownership history, among other things.

Property surveys can be done for residential, commercial, and undeveloped land. Residential surveys are usually the most common and come in two basic forms. The first is a "house location" survey, which is also sometimes called a "drive-by" survey, and its goal is to show the location of the house and other large structures on the property, as well as the orientation of those structures in relation to each other.

More detailed surveys, often called cadastral land surveys, typically contain much more information. While house location maps give property owners a sense of what is present and where, a cadastral document usually provides some sense of authority where boundaries, easements, and property lines are concerned. Surveyors typically go to the property and make real-time measurements, which are compared with archived land records to create a more complete picture of what is located where.

Property surveys are conducted most frequently when land is being sold. Buyers and sellers both usually want a clear picture of where borders and easements are, and setting precise boundaries can also help when it comes to establishing a fair price.

Mortgage lenders often want a survey before they will loan money to either residential or commercial investors, and many title insurers require this as well. Even if this has been done in the past, lenders typically want something very recent, often dated within six months of the closing date. An up-to-date property survey will reflect any recent changes to the property, like the addition of a fence or driveway. The report gives everyone involved in a land transfer a clear picture of exactly what is being purchased, as well as an up-to-date sense of the land's real-time value, taking inflation and current land prices into account.



Contract Amendments

When a real estate contract or purchase agreement is agreed upon and signed by both parties it is a complete and binding document. The *purchase agreement accepted, all parties have signed, and you're moving forward toward closing. A survey turns up an encroaching fence built by a neighbor. The buyers would like the fence moved prior to closing to eliminate the problem. If this is to be made a part of the agreement, then the contract must be amended.* The key here is that we already have an agreement, signed and sealed. If anything in the contract needs to be changed, an amendment to the contract must be completed and signed by the seller and the buyer of the property.

Possible reasons for amendments may include: change to the purchase price of the home, change to the amount of cash the buyer must pay at closing, any repairs the seller will make prior to closing, change to the closing date, other specified modifications.

PROMULGATED BY THE TEXAS REAL ESTATE COMMISSION (TREC) 12-05-11

AMENDMENT
TO CONTRACT CONCERNING THE PROPERTY AT

(Street Address and City)

Seller and Buyer amend the contract as follows: (check each applicable box)

(1) The Sales Price in Paragraph 3 of the contract is:
 A. Cash portion of Sales Price payable by Buyer at closing \$ _____
 B. Sum of financing described in the contract..... \$ _____
 C. Sales Price (Sum of A and B) \$ _____

(2) In addition to any repairs and treatments otherwise required by the contract, Seller, at Seller's expense, shall complete the following repairs and treatments:

(3) The date in Paragraph 9 of the contract is changed to _____, 20____.

(4) The amount in Paragraph 12A(1)(b) of the contract is changed to \$ _____.

(5) The cost of lender required repairs and treatment, as itemized on the attached list, will be paid as follows: \$ _____ by Seller; \$ _____ by Buyer.

(6) Buyer has paid Seller an additional Option Fee of \$ _____ for an extension of the unrestricted right to terminate the contract on or before _____, 20____. This additional Option Fee will will not be credited to the Sales Price.

(7) Buyer waives the unrestricted right to terminate the contract for which the Option Fee was paid.

(8) The date for Buyer to give written notice to Seller that Buyer cannot obtain Credit Approval as set forth in the Third Party Financing Condition Addendum for Credit Approval is changed to _____, 20____.

(9) **Other Modifications:** (Insert only factual statements and business details applicable to this sale.)

EXECUTED the _____ day of _____, 20____. (BROKER: FILL IN THE DATE OF FINAL ACCEPTANCE.)

Buyer _____ Seller _____
 Buyer _____ Seller _____

This form has been approved by the Texas Real Estate Commission for use with similarly approved or promulgated contract forms. Such approval relates to this form only. TREC forms are intended for use only by trained real estate licensees. No representation is made as to the legal validity or adequacy of any provision in any specific transactions. It is not intended for complex transactions. Texas Real Estate Commission, P.O. Box 12188, Austin, TX 78711-2188, 512-936-3000 (<http://www.trec.texas.gov>) TREC No. 39-7. This form replaces TREC No. 39-6.

TREC NO. 39-7

Some back and forth between the seller and buyer should be expected. This is a second negotiation phase. As in the first negotiation process, it's best to let your real estate agent handle these communications with the seller's agent. Emotions run high at this point in the proceedings. Keeping a buffer zone between the seller and buyer will help prevent any 'emotion overflow' that may put an end to any chance of a satisfactory resolution of the home purchase process.

Closing

This is the end of the journey toward home ownership and the beginning of memories in your new home! Closing is the final performance of all of the agreements you made with the seller and your lender for the purchase and financing of your new home.

Your real estate agent or attorney will tell you when and where to show up. Closings are generally held at a title or escrow office, but may be held anywhere that is convenient to both parties. The home sellers will be there with their real estate representation, too.

Your mortgage professional will have told you how much money you need to bring with you, usually in the form of a cashier's check or money order. Some companies allow you to write a personal check. Make sure you know ahead of time how much to bring and in what format.

Bring your favorite pen and be prepared to sign a great many documents. The Closing is often referred to as the Settlement, because this is when you are 'settling up' among yourselves and all of the other parties who have provided services or documents to the transaction. You will sign all the documents necessary to secure the home loan and the seller will sign over the house title to you.

The behind-the-scenes process continues after the closing. The settlement agent must forward payment to any prior lender, pay off all the other parties who performed services in connection with your closing, pay out any net funds to the seller, and arrange for a final search of the title to your new home before finally recording all the documents needed legally to complete your purchase. But you

don't need to be involved in any of this—go out and celebrate! The settlement agent takes care of these details.



Congratulations, Homeowner!

You have joined the ranks of home owners, the backbone of your community. You've taken a tremendous step with the purchase of a house of your own, and will now start to turn that house into your home.

Since this booklet is written for the first-time home buyer, we're going to assume that you don't know all that there is to know about maintaining a home. Feel free to check out our homeowners section on our website. Learn about your new home and how to protect it and its value.

<http://foxinspectiongroup.com/information-about-your-home.html>

Your new home is going to be worth millions because in it will live a family with hearts of gold. Share those hearts with people around you. Get involved in your community, get involved with teaching others, get involved in making your community a better place to live and work. Invite some friends over to celebrate your new home. You may want to try out some of the recipes highlighted on our website.



<http://foxinspectiongroup.com/our-favorite-recipes.html>

Unless you have been living in the neighborhood where you purchased your home, you may need some recommendations for various professionals, like housekeepers, handymen, and tree trimmers. Don't forget that we have a wide variety of contractors on our list here:

<http://foxinspectiongroup.com/houston-contractor-referrals.html>

May your new home add to your joys, multiply
your successes, subtract your losses and
divide your sorrows.
Congratulations for your new home.

We hope that this booklet has been helpful to you during your journey to home ownership. If you have any suggestions on how we can improve this information to further benefit others, please let us know!

Email your thoughts to
cj@foxinspectiongroup.com
or fax to 713-723-3334.

Thank you!

