

# Buyers

**Congratulations**, you have made the big decision to buy a home. Now what? There are many questions you will need to ask yourself before moving ahead:

## BEFORE YOU BUY

**1. Decide where you want to live.** A suggestion is to bring with you a list of things that you would like to have in your new neighborhood and home and decide on the ones that you must have and the ones of lesser importance. It is also a good idea to walk or drive through the neighborhood both during the day and during the night. What may be quiet during the day, may very well be busy at night.

**2. Check what the schools are like and are they nearby?** If you are a single person, this may not have any importance to you; however, if you currently have children or are thinking of having children, you may want to find out about the school districts on the local school district web site or by going to: <http://iirc.niu.edu/> for detailed school comparisons. Otherwise, you can contact the local schools directly for information.

**3. Does the home have resale value and how important is it to you?** Although we think that a home is an investment that will grow in value over the years, this is not always a guarantee. A mansion in a neighborhood of small homes will have a lower resale value than a small home nestled amongst larger and more affluent homes. You need to ask yourself how long you plan to reside in the home and if resale value is of importance to you.

**4. What is nearby and what do you need to be nearby?** Depending on your situation you may need to be close to your workplace, close to parks, schools, shopping, golf courses, etc. or you may need to be in a close proximity to a highway or interstate. Remember the old but true saying, "Location, location, location".

**5. What are the average taxes for the area to where you are planning to move or relocate?** Check with your Realtor or the County Tax Assessor to see when the taxes were last assessed in the area. Based on the taxes, you may decide that the area is too expensive to move to.

## DEFINING YOUR DREAM HOME

A home is probably the most expensive purchase one is likely to make in a lifetime so it is doubly important to decide up front what you want. The list of "Must Haves" should be thought through carefully, so you are sure to get the home that suits you best.

What type of home do you want?

1. Do you want single family residence, multi-family residence, townhouse, etc.?
2. Do you want single story or multi-level?
3. Do you want brick, vinyl, or wood?
4. Do you want a new construction or an existing home?
5. How many bedrooms, baths? What size kitchen, living room, etc.
6. Do you want a basement?
7. Do you want a garage, what size, attached or detached?
8. Is central air and forced air heat a necessity?

**REMINDER:** Always keep in mind that a home can often be changed to meet your needs such as central air can be

---

**SMITH REALTY GROUP of Effingham, LLC**

906 W. Jefferson Ave., Effingham, IL 62401

(217) 994-9024

[www.srgeffingham.com](http://www.srgeffingham.com)

added if you are willing to spend the money. However, some things you may not be able to change such as the size of the bedrooms. Please keep this in mind when choosing a home.

## **PURCHASING A HOME**

Once you have chosen a Realtor®, they will guide you through the buying process, from beginning to end.

1. **Get Pre-Approved With A Lender.** Once you have decided to purchase a home, unless you are paying cash, contact a local lender to start the pre-approval process. There is no cost involved to get pre-approved, and it will allow you to find how much you can afford on a home. Also a pre-approved buyer is a better bargaining tool than a non-approved buyer.
2. **Multiple Listing Service (MLS).** Your Realtor® has access to the local MLS in which they can search properties in the local and surrounding areas that will most suit your needs.
3. **Viewing Properties.** Your Realtor® will set up appointments to view the homes that you wish to see and will go with you.
4. **Your Questions.** Your Realtor® will know the area and community and know how much similar properties sold for recently. You may be able to use this as a bargaining tool when making an offer on a property.
5. **Negotiating The Deal.** Your Realtor® will write up the sales contract with contingencies and the price you are offering and will give you valuable advice throughout the process.
6. **Accepted Offer To Purchase.** Once your offer has been accepted, unless you are paying cash, the lender's process will begin. You or your Realtor® will need to get a copy of purchase contract to your lender. Your lender will then order the appraisal. A home appraisal is an independent valuation of a home to determine its market value. The appraisal value helps ensure the buyer does not end up having negative equity on the home.

## **TYPES OF LOANS**

For most people, the most difficult part in purchasing a home is understanding what finance options are available and which one best suits your needs. Below is a list of the most common types of loans. Your lender will help you decide which one is best for you.

1. **Conventional Mortgage:** This type of loan is backed or secured by the lender. This is one of the most commonly used loans.
2. **Fixed Rate Mortgage:** This is a very popular loan when the interest rates are low. The loan is repaid over a fixed term (15, 20, 30 years, etc.) in monthly payments of principle and interest. The same percentage of interest is paid during the entire life of the loan.
3. **Adjustable Rate Mortgage (ARM):** This type of loan has interest rates that fluctuate. The initial rate of interest tends to be quite low and then jumps up 1 to 2 points per year. Generally there is a yearly cap of one to two points & a lifetime ceiling cap of 5 points. The interest rates can go up or down, so this can be a very viable option for people willing to gamble with the interest rates.
4. **Government Backed Mortgage:** This type of loan is backed or secured by the government; however, it is still the lender who makes the loan. The two most common are the Federal Housing Authority (FHA) loans and the Veterans Administration (VA) loans. The lender will generally accept smaller down payments with these, anywhere between 3% -

---

### **SMITH REALTY GROUP of Effingham, LLC**

906 W. Jefferson Ave., Effingham, IL 62401

(217) 994-9024

[www.srgeffingham.com](http://www.srgeffingham.com)

5% of the purchase price. This can be an enormous benefit to someone that does not have much money to put as a down payment.

5. **FHA Mortgage:** The down payment can be as low as 2%; however, you will have higher Premium Mortgage Insurance (PMI). These type of loans are also assumable; therefore, you can take over from a previous seller, if you qualify.

6. **VA Mortgage:** These loans are administered by the Veterans Administration and are generally available to anyone that has served 180 active days of service since September 1940. These loans are designed to help qualified veterans of the US Armed Forces to buy a home with little or no down payment.

## HOME INSPECTION

Paying someone to inspect the home may prevent many more dollars being spent in the future on resolving issues that would have been highlighted during an inspection. It is recommended to get the home inspection completed as soon as possible.

1. **Seller's Disclosure.** The Seller is bound by law to disclose certain information about the house. Basically, the Seller is to disclose any problems with the roof, pests, structure, basement, attic, heating, cooling, lead based paint, etc.

2. **Finding And Hiring An Inspector.** You need someone that is trained to look at all systems, such as plumbing & electrical, as well as the structure. Remember, however, that inspectors are generalists and they may recommend a specialist look over something in more detail. You may want to get a recommendation of an inspector from your Realtor, friends, lender or attorney. Sometimes word of mouth referrals can be the most reliable.

3. **Recommendations.** It is highly recommended that you be with the inspector during the entire inspection of the home. It is also commended that the inspection be done during the daylight hours when it is easy to view all areas. Also, make sure the weather conditions permit a thorough inspection.

NOTE: The inspector inspects the condition of the property and not the value.

4. **Inspector's Report.** When the inspector is finished, he will write up the report and then go through the report in detail with you, pointing out any areas of concern. If the inspector finds any issues, he may refer you to a specialist (such as a plumber or electrician). It will then be up to you how you want to handle the issue. You may want the issue resolved before closing, a credit from the Seller for the amount of the repair, or if the offer was contingent on a trouble-free inspection, you may be able to null & void the purchase agreement altogether.

## PRE-CLOSING

Once all contingencies are met on your purchase agreement, it is time to get the closing paperwork completed so that you can head to the closing table and move into your new home.

1. **Title Insurance.** Title insurance is required on all homes and protects you in the case that someone stakes a claim to the property. It will also let you know if there are any easements, encroachments or liens against the property. The Seller or the Seller's Realtor is responsible for ordering the title insurance and it is usually the Seller's expense. It is a one-time cost at closing and will cover you the entire time that you own the home.

2. **Deed Preparation.** A deed is an instrument of conveyance given to pass fee title to property upon sale. The Seller or

---

### SMITH REALTY GROUP of Effingham, LLC

906 W. Jefferson Ave., Effingham, IL 62401

(217) 994-9024

www.srgeffingham.com

the Seller's Realtor is responsible for ordering the deed preparation from an attorney of the Seller's choice and it is usually the Seller's expense. It is a one-time cost at closing and will cover you the entire time that you own the home.

3. **Termite Inspection.** If applicable, a termite inspection will be ordered by the Seller or the Seller's Realtor within 30 days of the closing. It is usually the Seller's expense, unless otherwise stated on the purchase agreement. If termites are found, the Seller is asked to have the property treated by a professional termite company. If the Seller refuses, you may have the option to null and void the purchase contract.

4. **Homeowner's Insurance.** For home purchases, your lender will require that you purchase and prepay for insurance prior to closing. You will need to provide proof the insurance, such as a receipt, prior to or at closing.

## **CLOSING**

The closing or settlement as it is also known is the final step of the transaction. There are 3 main questions that you, as a Buyer, will ask:

1. **Where Is The Closing and Who Needs to Attend?** The closing is generally held at the office of the lender or the title company. The closer will take care of collecting and disbursing all funds necessary to close the transaction. It is imperative that the Seller and Buyer be at the closing; however, if this is not possible, documents can either be signed by an assigned power of attorney for the party or the documents can be overnighted to the party for signature.

2. **What Should You Bring To Closing?** Bring yourself and a cashier's check to cover your portion of the closing costs not covered by your lender. Your Realtor will let you know the amount of funds needed prior to closing. If the amount is greater than \$50,000, the funds will need to be wired to the closing office. You will also need to bring the certificate of homeowner's insurance prepaid for the year and a copy of your driver's license.

3. **What Are The Closing Costs?** Both the Buyer and Seller are responsible for portions of the closing costs. For some of the costs, it depends on where you live and the local custom as to who pays what and the agreement that you have in writing with the Seller. The majority of the fees are in relation to the loan, where the lender charges certain fees for giving you a mortgage. Your lender is required by law to give you a Truth-in-Lending estimate of your closing costs.

## **CLOSING COSTS**

Below are examples of fees that a buyer may be responsible for at closing:

1. Lender's origination or loan service fees - can be up to 3% of loan
2. Loan application fee
3. Lender's credit report
4. Lender's processing fees
5. Lender's document preparation fee
6. Lender's appraisal fee
7. Prepaid interest on loan - prepaid per day until the end of the month in which the closing occurs.
8. Lender's insurance escrow - can be up to 20% of the cost of a 1-year homeowner's insurance policy.
9. Lender's tax escrow - Depending on the time of year that you close, this can be up to 50% of the yearly property taxes.

---

**SMITH REALTY GROUP of Effingham, LLC**

906 W. Jefferson Ave., Effingham, IL 62401

(217) 994-9024

[www.srgeffingham.com](http://www.srgeffingham.com)

10. Lender's tax escrow service fee - fees to set up the tax escrow
11. Premium mortgage insurance (PMI) -- applicable if the down payment does not exceed 20% of the sales price.
12. Flood certification fee - fee to determine if the home you pick is in a flood plain - this usually costs approximately \$15.00-\$25.00.
13. Title insurance cost for lender's policy - this usually costs approximately \$40.00
14. Final title search and exam - this usually costs approximately \$50.00
15. Special endorsements to the title - your lender may require environment lien endorsements or location endorsements to name a few. This can usually cost between \$50-\$175.00.
16. Home inspection fees - any that remain unpaid
17. Title/escrow company closing fees - this usually costs approximately \$175.00 if a lender is involved or \$125.00 if it is a cash transaction.
18. Recording fees for the deed and mortgage, if applicable - this usually costs approximately \$45.00-\$50.00.