

# How To Buy ... Step by Step

Compliments of **The Neal Team** - HomeSmart

**Rule #1**  
**Seek good**  
**advice!**



**How to**  
**Find and Own**  
**Your Best Home Choice**



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Covering the entire Phoenix Arizona metro area

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so that you may use two-sided printing of this booklet  
and have the pages be in the most convenient order

# The Home Buying Steps ... in the needed order

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- Contact your Realtor®
- Get fully educated on the home buying process
- Obtain a Lender Pre-approval or a Proof of Funds letter from your depository, and establish your upper search-price limit
- Establish your home criteria and preferred areas, adjust as/if necessary
- Find your best-choice property
- Write offer, present to seller, negotiate terms and conditions of a Purchase Contract, open escrow, deposit earnest money
- Perform due diligence for all aspects of the property
- Negotiate correction for physical or legal issues ... else cancel
- Sign documents, deposit required buyer cash
- If purchase is financed, lender deposits loan principal.
- Documents are Recorded - Escrow Closes
- Get Keys - Move In

Extensive discussion of each of these steps can be found at there website pages:

- <https://www.homes-phoenix-az.com/6-steps-buying-home/>
- <https://www.homes-phoenix-az.com/arizona-first-time-home-buyer/>
- <https://www.homes-phoenix-az.com/top-10-arizona-home-buying-mistakes/>

# How to Be a Successful Buyer

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Buying a home is one of the most important and exciting decisions you can make. It is a decision that promises to bring you years of comfort and joy, and likely a substantial addition to your wealth. Yet, the idea of evaluating homes and neighborhoods, figuring your down payment and monthly costs, applying for a loan, finalizing the purchase, and the multitude of other activities can be overwhelming. For most buyers, the process is tedious and confusing. This is why, even for an experienced home buyer, consulting a Realtor® is essential ... actually the most important part of the decision-making process.

A Realtor® can help you find a house, efficiently and quickly if you discuss with your agent your needs and preferences, and where in the priority list each item fits. Is your family growing? Do you entertain a lot? Garden? Barbeque? Work at home? Are you a chef? A wardrobe buff? Are you a fixer-upper or a total coach potato?



Your Realtor's® expertise and experience will be crucial in helping you find the home that fits your dreams. He/she has exclusive access to a critical tool to your search efforts - the Multiple Listing Service (MLS). This data source has information on nearly every home for sale in the market. This vital tool provides current information on properties that are available for sale in a comparative format, as well as

information on properties recently sold, which is the best indicator of current market prices.

In addition, your agent will show you homes that you can comfortably afford. He/she will help you to understand how much a lender will let you borrow and on what basis it's calculated. This is usually the starting point for determining your price range. Then your Realtor® will work with you to establish the other criteria that will lead you to your best home choice.

When you find that home and are ready to make an offer, this is where the knowledge of your Realtor® is most important. He/she can provide information on what

comparable homes are selling for in the same neighborhood, and advise you on beneficial terms and conditions for the purchase contract. Your Realtor® will act as the intermediary between you and the seller who is likely to also be represented by an agent. If there are negotiations over price, closing dates, contingencies, and items - such as appliances - to be left or taken, your Realtor® will be your representative.

Once your offer is accepted, there will be a lot to do in a short period of time. Your Realtor® will provide purchase documents and information to your lender, will direct you to inspection and insurance professionals, and will open the escrow for the transaction. Thereafter, he/she will manage transaction activities to arrive at a timely closing.

## Shop Smarter ... Not Harder!

Fine tune your home dreams by working on the answers to two questions:

1. How much house can you afford?
2. What are your needs and preferences in a home?

### How Much House Can You Afford?

Unless you have the cash required for your purchase, the starting point to answer this question is how much a lender calculates you can afford. Your Realtor® can suggest a lender that he/she trusts to help you through the financial process of pre-qualifying - calculating the limit amount that a financial institution will lend you.

In general, lenders allow your total monthly housing costs to go as high as but not more than 30% of your gross monthly income. The second requirement is that not more than 36% of your gross monthly income can be tied up in total monthly house payment and payments on outstanding long term debt.

Keep in mind, the above formulas may be somewhat different from lender to lender. Ask your lender about his/her policies.



What are the components for arriving at "total monthly house payment". These costs generally include your mortgage principal and interest payment, property taxes as a

monthly figure, and hazard insurance as a monthly figure. These four items are referred to as PITI (principal, interest, taxes and insurance). If you're required to pay private mortgage insurance (PMI) because your down payment is less than 20%, those premium payments will also be included. If the home you select is within a homeowner association, these monthly costs will be included as well.

## **Get Your Financing in Order**

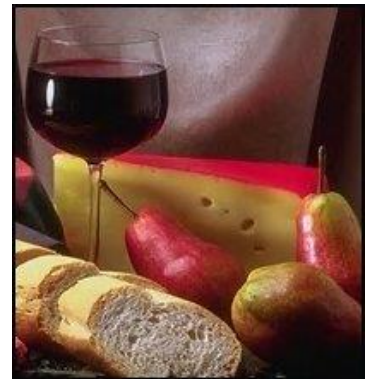
You can get together with a lender to get your loan application completed and the financing process started. Be prepared to provide the lender with copies of any important and necessary information.

## **Making Your Purchase**

Once you have found the perfect house, your Realtor® will take you through the purchasing process. First, you submit your offer. The seller may accept your first offer, or you may go through one or several counter-offers before you and the seller agree on the terms of the sale. Once you both agree, you have a contract of sale which spells out the details and responsibilities of all parties involved in the transaction.

## **How much should you offer to pay?**

Should you offer to pay the seller's asking price or a lower one? Consider such factors as: How long has the house been on the market? Is the list price reasonable? Your Realtor® can show you comparable home sales (comps) for similar properties in the neighborhood to help you. How competitive is the area's home buying market? If the seller is offering an assumable mortgage or financing, how much is it worth to you?



## **What happens to the earnest money?**

A "deposit" is made, in part, to show the seller your seriousness about buying. Your Realtor® will inform you of the amount that is usually given in your area. The seller doesn't actually receive the earnest money. A third party, the escrow company, holds the amount in a special account until the sale is closed or the contract is broken.

## **How does the seller prove the "Title" is clear?**

A "title" spells out who has the right to ownership of a property. It is said to be "clear" if there are no substantial claims or liens (such as a mortgage) against it.

A "title search" is done by the escrow/title company. Based on that search, a "title commitment" is issued spelling out the current status of "title" and any actions that must be taken before a title insurance policy will be issued by the company. This insurance is essentially the same as all other forms of insurances. The policy will protect you against financial loss, up to the amount of the sales price, that come from claims against the title for issues covered by the policy.

## What conditions should you place on your purchase?



When you commit to buy the home through your offer, you may make that commitment contingent upon certain things happening, such as you securing financing for the home. In a similar vein, you may make the purchase contingent upon the sale of your present home by a certain time and under certain terms.

You will also want to make sure the home is in good shape. You may make the contract subject to your being satisfied with a building inspector's report and/or an inspection for termites. The purchase should also be subject to your being satisfied with your own inspection of the home just prior to closing ... know as the pre-closing walkthrough

## What are you buying?

The contract should spell out everything that is part of the purchase that may not be clearly part of the real estate. Common items that could cause questions include appliances, light fixtures (such as the chandelier in the dining room), shades, blinds, curtains and rods, sun screens, shelving or cabinets, potted flowers, shrubs and trees, or perhaps a swing set that is anchored down.

## What special provisions should be included?

The AAR Purchase Contract includes "normal and customary" provisions, such as one for property taxes, insurance costs, utility bills, and special assessments to be prorated at closing between buyer and seller. Others specify what happens if the property is damaged before closing, or if either seller or buyer fails to go through with the sale. You may want to add your own special provisions. For example, you may want the seller to provide you with home warranty insurance at no cost to you.

## The Settlement Process

All the pieces are starting to come together. Your lender has approved your loan and, except for the seller's paying off the existing mortgage, the title is clear. The property inspector you hired has submitted a report and finds no major structural or mechanical flaws in the house. You, your Realtor®, and the seller's agent have completed the pre-closing walkthrough. This is a final inspection of the property to determine that the property condition is essentially the same as on the date the purchase contract was signed, and that the “corrections” the seller agreed to make based on the inspection have been completed.



### What are all those closing costs?

After you apply for your loan, you will receive from your lender a "Closing Cost Estimate" of the fees charged for closing. This includes fees charged not only by the lender, but all parties involved.

The “Closing Disclosure” you receive at closing will be divided into categories so that it's easier to see what the charges are related to. For example, some of the categories are: loan costs and fees, escrow and title insurance costs and fees, escrow deposits, broker commissions, recording fees, and document preparation fees. Federal law requires that the numbers on this disclosure closely match those on the estimate delivered to you by your lender.

In your contract, you and the seller agree who will pay what. Here's a general rundown on what some of the costs include.

### Charges related to the loan

The loan origination fee covers the lender's administrative costs. The loan discount, referred to as points (each point being equal to 1 percent of the loan amount), is extra interest paid to the lender to make up the difference between market interest and the interest of the loan.





## Why do lenders charge points?

Whenever governmental regulation, state usury laws and/or competitive practices prohibit the lender from charging a rate of interest which would make the real estate loan competitive with other fields of investments, the lender must seek some other methods of increasing the yield for the investors. By charging "points", the lender can bring the real estate loan up to those other investments. Please contact your lender for additional information.

## Are "points" called by different names?

Yes. Commitment Fee, Discount Fee, Warehousing Fee, Funding Fee, etc.

## Who must pay the points?

It's very important that the Contract clearly state who pays these costs!

**FHA:** The Buyer is usually charged with the Loan Origination Fee. The Discount Fee can be paid by the Buyer or Seller.

**VA:** The Buyer is usually charged with the Loan Origination Fee and the Funding Fee. The Discount Fee may be paid by Seller, Buyer or split.

**Conventional:** Points can be paid by the Buyer, the Seller, or split between the two.

**City/County/State/Fed sponsored loans:** As published by them.

## Do points charged fluctuate?

Yes. If rates on mortgage loans are lower than other investments {such as stocks, bonds, etc.) then funds will be drawn away from the mortgage market. Also, when there is a heavy demand upon the money market because of business needs, military requirements or other government borrowing, the result is that money for home mortgages becomes scarce and more expensive. When that occurs, more points can be charged. Points balance the market. Points are not set by government regulation but by each lender individually.



## Is FHA or VA financing unfair to sellers?

No. Homes can sell faster because more buyers can qualify with the lower down payment requirement, lower interest rate, or longterm loans with lower monthly payments. The purpose of these loans is to provide purchasers the opportunity to buy homes with minimal cash investment thus providing a bigger market for sellers.

However, these loans can be a significant negative to a seller. For a discussion see ... <https://www.homes-phoenix-az.com/how-financing-affects-your-offer/>

## Are points deductible for income tax purposes?

Points on a home are deductible if they are generally charged in the geographical area where the loan is made. If you are in doubt about points being deductible you should contact your tax return preparer.

Other charges will most likely include an appraisal fee (to make sure the house is worth what you're paying for it, thereby assuring the lender that the house has enough value to cover the loan amount), and a credit report. If you are required to pay PMI (Private Mortgage Insurance for less than 20% down), a charge will be included since the lender obtains the insurance for you. If you are assuming the seller's mortgage rather than getting a new loan, an assumption fee will be listed.

## Items paid in advance

“in advance” means prior to delivery, or beginning of the applicable time period. Very few transaction costs are paid prior to the “closing” event, with the buyer payment for loan appraisal and inspections being the exceptions here.

Items paid in advance generally include mortgage interest (from the closing date to the date your first payment is due), the first year's hazard insurance, and, if required, the first year's PMI premium.

## Deposits or reserves with the lender

Advance payments (usually 2 months) to the lender include hazard insurance, property taxes, and PMI (if required). These advance payments are placed in an "impound" account that is added to as you make your monthly payments. When the cost item is due to be paid,



the lender makes the payment. Lenders usually insist on this procedure to be sure that the taxes are timely paid and that insurance coverage is in place.

## **Title charges**

Title charges include fees for the title search and fees for preparing the documents for closing and transfer of title. There will be a one-time fee/premium for the owner's title insurance and a one time fee/premium for the lenders title insurance. For more information, please refer to the title and escrow section.

## **Recording and transfer charges**

These fees are for recording the Deed of Trust (mortgage) and the grant deed. There may also be transfer taxes which are fees for transferring property, and notary fees.



## **Closing**

As a buyer, if you borrow money for the purchase, you'll sign a note in which you agree to pay back the loan and pledge the house as security until the loan is paid off. There are also other loan documents, as well as other types of documents, disclosures, forms, and acknowledgments that must be signed. Don't be surprised if some of this

seems to be a good bit of repetition here. Your escrow officer will explain each document and answer any questions you might have.

Any issues (such as problems you found during the walkthrough) should be resolved before you sign transaction documents. After closing, the solutions to any such issues are limited and not easy. In Arizona, “closing” is a “non-event”. As defined in the AAR Purchase Contract, closing occurs when the transaction is recorded by the county Recorder. Delivery of the documents to the Recorder, the recording, and notice back to escrow are all done electronically.

# The Loan Process

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## **Step 1. The Application**

The key to the loan process going smoothly is the initial application interview. At this time the lender needs to obtain all of the required documentation so later problems and delays are avoided. The realtor opens escrow at this time as well.

## **Step 2. Requesting Documentation**

Within 24 hours of application, the lender requests a credit report, an appraisal, verifications of employment and funds to close, mortgage or landlord ratings, a preliminary title report, picture ID, W2's (2 years), Certificate of Eligibility and DD214 (VA only), and any other necessary supporting documentation.

## **Step 3. Loan Submission**

Once all the necessary documentation is in, the loan processor puts the loan package together and submits it to the underwriter for approval.

## **Step 4. Loan Approval**

Loan approval generally takes anywhere from 24 to 72 hours.

All parties are notified of the approval and of any conditions that must be satisfied before the loan can be funded.

## **Step 5. Documents are Created**

Within 1 to 3 days after the loan approval, the loan documents are completed and sent to the escrow officer, who then calls the borrowers to come in when the papers are ready for final signature.

At this time, the borrowers are told precisely how much money they will need to bring in to close the loan.

## **Step 6. Funding**

Once all the parties have signed the loan documents, they are returned to the lender, who reviews the package.

If all the forms have been properly executed, the funds are transferred by wire.

## **Step 7. Recordation**

When the escrow officer receives the loan funds from the lender, they make the lender's security for the loan a matter of public record. This is done by recording the Deed of Trust at the county recorder's office.

In Arizona, this is the official "close" of the transaction.

## **Step 8. Congratulations!**

You are the Owner of Your Home.

You will be amazed at how gratifying this experience is.

## Mortgage Loan Checklist

The prior page presents a summary of the steps involved to generate a home purchase loan. To expedite this process, be sure you bring everything applicable on the following list to your application appointment.

- Copy of Home Purchase Contract
- If some of funds are to come from sale of your present home, copy of Sales Contract and certified copy of Closing Statement.
- Residence History  
Past 24 months of residence with complete addresses.  
Length of time you lived at each residence.  
If renting, name of landlord and his/her contact info.
- Employment History  
Employers for the past two years with contact info.  
Dates of employment for each place.  
W-2s of most recent two years.  
Most recent two year's tax returns, first two pages  
If self-employed, year-to-date profit and loss statement and current balance sheet  
If there have been any gaps in your employment, be prepared to explain.
- Copies of most recent monthly statements for all loans or credit card balances.
- Accounts  
Copies of most recent three month's bank statements for all accounts, stock brokerages, mutual funds, IRAs, Pensions, etc.
- Current Real Estate  
Property addresses.  
Estimated market values.  
Outstanding loan balances ... bring most recent statement.  
Other investments ... bring most recent statements
- Personal Property  
Net cash value of your life insurance.  
Year, make and value of all vehicles.  
Value of your furniture and personal property.
- If applicable  
Copy of divorce papers.  
Certificate of eligibility & DD214 (for VA only).  
Copy of driver license and Social Security Card

## Guide to Closing Costs

In Arizona, the Buyer *usually* pays the following costs, but keep in mind that all costs are negotiable as to who pays in most transactions.

- Lender Title insurance premiums ... if there is a loan
- Escrow fee - half of total fee
- Notary fees - if signing is not at escrow office
- Recording charges for all documents in buyer's name
- Termite inspections (according to contract)
- Tax proration (from date of closing of purchase)
- Homeowner's transfer fee
- All new loan charges (except those required by lender for seller to pay)
- Interest on new loan from date of funding to 30 days prior to first payment
- Inspection fees (roof, property inspection, geological, etc.)
- Casualty insurance premium for first year
- Courier fee

## Why Use A Realtor®

- It's FREE! Your Realtor's® commission is typically paid by the seller.
- Realtors have access to the Multiple Listing Service (MLS), the absolutely best source of information on homes for sale.
- A Realtor® duty is to get the best possible price and terms for you, to act in your best interests, and to provide you with facts and information to guide your decisions throughout the purchase process.
- A Realtor® will assist you to determine the offering price, will prepare and present your offer (purchase contract) to the seller on your behalf, and will explain the clauses, timeframes, and requirements in the contract.
- A Realtor® will track and manage many of the tasks required to close the transaction, such as home inspections, title insurance, home warranty, and contract deadlines.
- A Realtor® has the knowledge and expertise to negotiate and resolve the problems and issues that commonly arise.



A home is a major investment. Your Realtor® will work by your side throughout the buying process to assure a successful home purchase.