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FIRST TIME HOME BUYER'S GUIDE





Your Dream Home is Out There!

Buying a home can be one of the most nerve-wracking and emotional experiences we encounter in our lives, but it can also be one of the most exciting and rewarding moments too. To help guide you on your way, we've put together a few crucial tips that I will be showing you and that have helped our past clients find their dream home!

Make Your Home Search More Efficient

Searching for homes might be the most exciting part of buying a home. In our experience, the key to eliminating the "never-ending search" is to set up a list of wants and needs.

Needs

Your first focus should be what you or your family must have in a home. This usually translates to the core characteristics of the house, i.e., those that cannot be easily changed. Beds, bathrooms, and size of the home (Sqft) fall into this category. We would also encourage you to include location and schools because the proximity to your workplace and the quality of school district are also sub-characteristics of the home.

Wants

Once you've established your needs, you can then shift your attention to the wants. Things like yard size, garage space, a chef's kitchen, or office space are all desirable but typically won't be a deal breaker. This is where compromise often comes into play and most homes will have most of what you want, but perhaps not everything. It even helps to rank your wants so you can work from an ordered list to help you make a decision.

Having these priorities will help narrow your search by keeping your focus on homes that fit your criteria!

Searching for homes is exciting and we want to offer our services if you need help. As agents, we can expedite the search process for you, get you into houses outside of open house times, and give our expert opinion on any homes you might be looking at.



The Market Matters!

Once you start to get more serious about making a move, you will want to understand the current market conditions. Here are a couple of things to keep an eye on while you peruse homes.

Pricing Trends

Pay close attention to the trends in the area(s) you are looking to buy in. This is where a real estate agent can be critically important. Understanding if pricing is on the rise or the decline in a specific area, can help you identify when is a good time to buy or not.

Market temperature

How long are listings lingering on the market in the area you are browsing? If homes are selling quickly, it indicates a hot or seller's market and can usually lead to multiple offers or a bidding war in some cases. Getting a home below market value is rare in this kind of market. If homes are staying on the market for a relatively lengthy time, it means that it is a cool or buyer's market and your chance of getting a home at less than asking price increases.

Mortgage Rates

These rates are strongly tied to our own economy and the Federal Reserve Board (FED). When the prime rate is increased to curb inflations and slow economic growth, mortgage rates rise. When they cut interest rates to stimulate economic growth, mortgage rates usually drop and makes buying a home more affordable. Pay close attention to where rates are and where they are heading when looking to buy.



Understanding the Buying Process

Understanding the buying process can better help you prepare yourself, emotionally and mentally, for what is to come and can alleviate some of that stress! Here is a general guide that breaks down the process and helps you prepare for what to expect when buying a home.

The Search

Most buyers start their home search on their own and "window shop" for homes. This is a great way to get a feel for the market and check your own commitment level. Keep in mind that having an agent at this point in time can fast track your searching efforts, as they can do the leg work for you!

The Pre-Approval

Once you are ready to take the next step, you'll want to get pre-approved so that you can be prepared to make an offer. Note that these typically last 90 days but can be renewed at the end of this time period. This allows you to jump at any prospective homes as quickly as possible, and in hot markets, this can make all the difference.

Get an Agent

An agent is going to advocate for you and protect your interests. They have a great amount of expertise and insight that can help you make the best decision possible. They will also negotiate on the offer, give real estate advice, file all appropriate paperwork, and ensure that the transaction goes as smoothly as possible.

The Offer

You think you've found the one! The offer will include your price and any other terms or conditions that your offer depends upon. You will also be required to put some earnest money forward to let the seller know you are serious. This goes to escrow and is applied toward your purchase if your offer is accepted. You may lose your earnest money if you back out of the offer and it isn't based on any of your pre-ordained contract conditions. It is wise to write an inspection as a condition to your offer, that way if major items come up, you can walk away and get your earnest money back. Be sure to read over the seller disclosure documents, as the seller is required by law to put any known flaws in the home in writing. You will also set a closing date, which sets the date in which you get the keys and the home is yours.

Understanding the Buying Process Cont.

The Counter Offer

The seller may come back with their acceptance or denial of your offer price or conditions. Don't worry, you can counter their offer as well. This can be a back and forth game until both parties come to a consensus.

Mutual Agreement

Once both parties have agreed on the terms in the offer, you have mutual agreement.

The Loan Application

Mutual agreement comes with a price and with that, your lender can start the underwriting process. The time to complete the loan application can vary, but you can expect at least one week during normal business times.

The Appraisal and Inspection

Lenders want to ensure that the home is at least worth the amount they are lending you. This protects you from overpaying for the home. If you are putting up an all cash offer, you are not required to have an appraisal.

Closing

If approved, you will bring your down payment and money for all other closing costs. After signing the mortgage, you are now in the possession of the deed and you will get your keys on the aforementioned closing date.



Set Yourself Up for Success

We wanted to share some purchase preparation tips that we've accumulated over the years to keep in mind once you've decided that you are going to buy in the next 6 months.

Cancel shopping sprees

Don't make any large purchases or do anything that implicates your credit negatively for about four to five months before buying. Banks will be scouring through your accounts to ensure you are financially worthy of a loan. Ignoring this will negatively impact your potential loan amount and rate.

Get your credit in line

Your pre-approval process with a lender will require a credit report to be run. This is a good opportunity to rectify any discrepancies with creditors so when you do have an offer accepted your final loan approval will no longer include those discrepancies, which will improve your score and get you a better rate. This is the "debt" part of the Debt-to-Income (DTI) ratio that comes into play in getting a loan and dictating what amount.

Down payment

Most lenders and loan types will require you to pay some % of your loan amount as a down payment, so don't forget to squirrel away some money for this. If you are getting some help from family or friends, gifting money can be used to help with down payments but will require a gift letter. If you don't have enough for 20% down, lenders will require you to have mortgage insurance (MI or PMI), which adds to your monthly mortgage payment. There are some loan types out there that will allow you to put as little as 3% down or zero down for those that qualify.

Don't quit your day job

Proof of and length of employment are core elements in lenders determining your DTI, so now is not the best time to call it quits with your current employer. Stick around until the closing paper work is signed if you can help it.

Asking the Right Questions

Having all the information is the best way to make an informed decision. The best way to understand the complete picture of a home is to ask questions about things that are not in the listing description. Whether you are simply asking the listing agent via email/text or you are at an actual open house, here are some go-to questions you should ask the listing agent:

- Have there been any offers submitted?
- Are there any building permits or structures being put up nearby?
- What are the comps on the home around this one?
- Are there any disclosures about the home?
- Is it currently owned or rented?
- Why are the sellers moving?
- How long has it been on the market and why?
- When was the home built and what updates has it received?
- Cost of utilities?
- What schools are nearby and how are they rated?
- Do current owners have pets? (if it isn't obvious)



The Importance of Pre-Approval

When you want to buy something, it all comes down to money. Therefore, we recommend that your home buying experience starts with Pre-Approval. Understanding your finances will help focus your efforts for everything else after. Don't get the cart in front of the horse and the process at an open house, as that typically ends in heartache. Here are some benefits of pre-approval and what you will need to get pre-approved.

Pre-approval perks:

- Discuss and learn about loan options and budgeting with the lender.-
- Run a check on your credit and alert you to any problems.
- Informs you of the maximum amount you can borrow, which helps set a price range for your search.
- Allows you to make an offer instantly.
- Sets you above the competition without pre-approval.
- Legitimizes your offer, as sellers will be more willing to negotiate with you knowing you can obtain financing.
- Lock in your loan and Rate for 90 days to protect you against market changes.

If you are not quite ready to commit, a Pre-qualification might be a better route to go, as this will give you an idea of what you can afford and help with your home search, without the credit and financial check.

Items needed for Pre-approval:

- Proof of income
- Verification of employment
- Proof of Assets
- Credit check
- Identification - Social Security #, driver's license, and current address

Keep in mind that different lenders will pre-approve you for different amounts, so if you are looking for some guidance as to which lender to do this with, we have a few recommendations for lenders that we've worked with in the past and trust.

Understanding Different Home Loan Types

As you get more serious about purchasing a home, we've found that it is helpful to understand all mortgage loan types before you officially sit with a lender and start talking about financing a home. There are quite a few loan types that you may be eligible for and might end up either helping you get into a home or saving you a pretty penny down the road. Here are a few loan types to get you started

Conventional/Fixed Rate Mortgage:

Most existing loans are conventional and there is a reason for that. These are the safest kind of loans because they are immune to mortgage rate changes that can occur over the lifespan of the loan. They come in 10, 15, 20, and 30-year sizes, with the most common being 30 years. They typically have a down payment threshold of 20%. If you are in it for the long run, this is your best bet.

Adjustable Rate Mortgage (ARM)

There are various types of ARM loans, but the basic idea is that the initial interest rate for the first three, five, or seven years is locked in and then is subject to the current rate once that time period for every year after. If you don't plan on being in the home longer than that initial period where rates are locked, this might be perfect. If you stay longer, you will be subject to the market rate fluctuation which can cause your rates to go up or down each year.

Federal Housing Administration (FHA)

If you can't make the 20% down payment cost, FHA loans only require ~3% down. The downside is that there is a cap on total amount loaned and rates are usually fixed, with 15 or 30 year options. You will also be required to pay Mortgage Insurance (PMI or MI) which adds to your monthly mortgage payment (~1% the cost of your loan).



Understanding Different Home Loan Types Cont.

Veterans Affairs (VA)

If you've served in the military, you have this option available to you. This loan doesn't require any money down, usually covers 100% of the home's value, and doesn't require mortgage insurance. Uncle Sam's loan is hard to resist!

Bridge Loan (Gap loan)

If you are trying to buy and sell at the same time, this is an excellent option for a smooth transition. This loan lets you combine your existing mortgage and new loan into one. Once you sell your house, you pay off that mortgage and refinance on the remaining amount for your new home. You must have excellent credit, a low DTI ratio, and don't need to finance more than 80% of both homes combined value.



Are Fixer-Uppers a Steal or a Money Pit?

Thinking about trying to score on a fixer-upper? There are some gems out there that can turn out to be the deal of the century. In our experience there are pros and cons to taking the fixer-upper route instead of the move-in-ready.

Fixer-upper Pros

- Discounted Sale price - List prices are always lower, depending on the amount of work that is needed.
- Reduced Taxes - Property taxes are based on the sale price, so if that sale price is significantly lower, so will your property taxes.
- Blank slate - You can tailor your house to your exact tastes and specifications.

Fixer-upper Cons

- More Work - Remodeling, working with contractors, and even putting in your own elbow grease is inevitable.
- More Time - Remodeling process can take months, which can be tough to time with an existing lease. Scheduling contractors and your DIY projects can consume more time than you may anticipate.
- "Uh-ohs" - There are often things that can't be seen until you are tearing out walls, so be prepared for the unexpected.
- Cost - Sometimes the remodeling process can cost more than your initial savings and negate any "deal" you may have received on the list price.



Be an Open House Pro

Attending an open house can be exciting and overwhelming at the same time. Here are some tips to help keep your cool and help you decide if this is really the home for you and worth taking the next steps.

Take note of the neighborhood

Is it on a busy street? Do the neighbors have barking dogs? Are the other homes in the area run down? Are they building a shopping mall across the street? Getting a feel for the neighborhood is in your long-term interest, as these will ultimately be your comps when you might sell later down the road. These are things that are not in the listing details, so be sure to tune into the surrounding area of the home.

Focus on the big stuff

It's easy to get caught up in the small details of the home, but the reality is, those are all cosmetic and can be changed to your liking with little cost. However, an aged roof that might need to be redone is something you should ask about, as this will come out of your pocket and won't be cheap if you end up purchasing. It's important to look beyond the surface and get at the core home attributes and their current state. A home's age can be a great starting point for carefully looking at elements of the home that deteriorate over time and evaluating their condition. Note that old homes tend to have issues with electrical, siding, roofing, insulation, plumbing since material quality and regulations have changed over the years.

Does it meet your needs?

You're at an open house for a reason, but double-check that this home meets all your needs before falling in love with it. It sounds silly, but why waste your time on a home that has your wants and none of your needs?

It's not required, but we recommend having your agent with you when you tour a home so they can advocate for you and help you evaluate the home.

Weighing the Need for a Home Inspection

There is a lot of debate around whether you need to get a home inspection done on a home you are intending to buy. This is a hot topic, especially in seller markets where you hear that inspections are being forgone as a way for buyers to get a leg up in their offer because sellers don't want you to have an inspection done for fear of what might be found out and losing the bid.

Here are some reasons that it is important to do.

Know what you are buying

This is the largest purchase you are likely to make. You want to know if it is a lemon before you buy it and an inspection can shed some light on issues that are not easily visible.

Serves as an "out"

If an inspection is written into the offer as a condition, if anything comes up in the inspection that you think will be problematic, you can walk away from the offer and not lose any earnest money.

Safety

Knowing that a home is structurally sound and won't cause harm to you and your family is paramount.

Call out unpermitted changes

An inspection can tell you if any work that has been done on the house has been done correctly and is up to code. Any work that is done illegally essentially doesn't exist and can impact value, insurance, and may even prevent you from getting a loan (if serious enough).

Weighing the Need for a Home Inspection Cont.

Findings can be used in negotiations

If you are okay with any of the issues found, you may be able to leverage them to either get the seller to fix them on their dollar, or negotiate a price reduction if you are going to foot the bill once you own the home.

Predict future costs

Major home systems evaluations can help you predict that you'll need to replace some systems. This will help you budget appropriately for the future when the inspector tells you that you have a year left on the life of the furnace. It can also help determine what insurance coverage or warranties you might want to pursue.

The idea is that a home inspection tells you exactly the condition of the home and what you are potentially going to purchase. We have an extensive list of recommended and trusted inspectors if you need a referral.



*They Call it
The Magic City*

*We Help You
Call it Home*

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