



Real Estate Buyer Guide

BUYER AGENCY

DEFINITION:

A Broker engaged through a written agreement by the Buyer/Tenant to act as Buyer's Agent or Tenant's Agent.

Duties of the Agent:

1. To perform the terms of the written agreement.
2. To exercise reasonable skill and care for the Buyer/Tenant.
3. To promote the interests of Buyer/Tenant with utmost loyalty, good faith and fidelity.
4. To seek a price and terms acceptable to Buyer/Tenant.
5. To present all offers to and from Buyer/Tenant in a timely manner.
6. To disclose to Buyer/Tenant adverse material facts actually known by Broker.
7. To advise Buyer/Tenant as to material benefits or risks actually known by Broker.
8. To advise Buyer/Tenant to seek legal and other expert advice.
9. To account in a timely manner for all monies and properties received.
10. To comply with all local, state and federal laws.
11. To disclose the following only with informed consent of the Buyer/Tenant.
12. That the Buyer/Tenant is willing to pay more than the purchase/lease price.
13. What the motivations are of Buyer/Tenant.
14. What financing terms the Buyer/Tenant would agree to.
15. Any material information about the Buyer/Tenant unless required by law.
16. Facts or suspicions which may psychologically impact the purchase.

Termination of agency will be the earlier of the following:

1. The date of expiration agreed to by the parties.
2. Completion of the Purchase of a Property.
3. Mutual Termination by the Parties.

Responsibilities following contract termination or performance:

- Accountability for monies and properties
- Confidentiality of information received during agreement unless:
 - a. Required by law.
 - b. Released in writing by engaging party.
 - c. Information is made public by source other than Broker

Compensation:

1. Payment of compensation shall not be construed to establish agency.
 2. Compensation may be paid by Buyer/Tenant or Seller/Landlord or third party.
 3. The identity of source of compensation shall be disclosed to all parties.
 4. Compensation by more than one party is permitted with the written consent of the parties.
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SELLER'S (Listing) AGENCY

DEFINITION:

A Broker engaged through a written agreement by the Seller/Landlord to act as a Seller's Agent or Landlord's Agent.

Duties of the Agent:

1. To perform the terms of the written agreement.
2. To exercise reasonable skill and care for the Seller/Landlord.
3. To promote the interest of the Seller/Landlord with utmost loyalty, good faith and fidelity.
4. To seek price and terms acceptable to Seller/Landlord.
5. To present all offers to Seller/Landlord in a timely manner.
6. To disclose material facts to Seller/Landlord actually known to Broker.
7. To counsel Seller/Landlord as to material benefits or risks.
8. To advise Seller/Landlord to seek legal and other expert advice.
9. To account in a timely manner for all monies and properties received.
10. To comply with applicable local, state and federal laws.
11. To disclose the following only with informed consent of the Seller/Landlord.
12. That the Seller/Landlord is willing to accept less than the asking price.
13. What the motivations are of the Seller/Landlord.
14. What financing terms the Seller/Landlord would accept other than those offered.
15. Any material information about Seller/Landlord unless required by law.
16. Facts or suspicions which may psychologically impact the sale.

Termination of agency will be the earlier of the following:

1. The date of expiration agreed to by the parties.
2. Completion of the Purchase of a Property.
3. Mutual Termination by the Parties.

Responsibilities following contract termination or performance:

- Accountability for monies and properties
- Confidentiality of information received during agreement unless:
 - a. Required by law.
 - b. Released in writing by engaging party.
 - c. Information is made public by source other than Broker.

Compensation:

1. Payment of compensation shall not be construed to establish agency.
 2. Compensation may be paid by Buyer/Tenant or Seller/Landlord or third party.
 3. The identity of source of compensation shall be disclosed to all parties.
 4. Compensation may be paid by more than one party with the written consent of the parties.
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BENEFITS of Working with a BUYER's Agent

1. Get all the facts - no information withheld
 2. More properties available
 3. Help on negotiating
 4. Someone in your corner - form a TEAM!
 5. Better negotiating possible - stronger
 6. Secrets are OK
 7. You may save money
 8. Agents become investigative
 9. Challenge the MLS information
 10. May save time
 11. Work with a motivated agent because they know you are loyal to them
 12. Get Broker's full attention
 13. Greater chance the contract will stay together until closing
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Types of Mortgages:

FIXED RATE FINANCING

Once thought to be a dying breed, these loans offer fixed payments that only change when taxes or insurance change. A consumer can obtain a break on the rate of about 2% by going with a shorter maturity, 15-year loan, but this is at the expense of higher payments. As a result, a consumer qualifies for a lower loan amount. Under the current rates, these loans perform best over the long run since rates can vary greatly on Adjustable Rate Mortgages.

ADJUSTABLE RATE MORTGAGES (ARMs)

Having evolved for 15 years, these loans offer an attractive alternative to fixed rate financing. The initial rates start as much as 4% lower as compared to their fixed rate counterparts. A typical one-year ARM has a 2% annual cap and a 6% life cap over the initial rate and is adjusted annually according to a national index that reflects current interest rates. At adjustment, this program utilizes the current index rate and adds a margin that generally varies around 2.5 - 2.7%. Consumers should view ARMs under their worst case scenario as this, at some point, could be a reality. The loans are ideal for properties that will be sold in 4 to 5 years since a sizable amount of cash flow can be saved up front during the first two years. Under some circumstances, these loans can assist an individual in qualifying for a greater loan amount due to the lower initial rates.

The FHA has an attractive ARM program that offers more protection to a homeowner. The program offers a 1% annual cap and a 5% life cap. Although based on the same index as conventional ARMs, the margin is much lower at 2.0 - 2.25%.

BALLOON LOANS

These loans were evolved during the last year and serve as an attractive alternative to ARMs and fixed rate programs. The loans are fixed for 5 to 7 years at a lower rate compared to fixed rate loans, although their payments are amortized over 30 years. A 7-year program saves .375% annually, and a 5-year program saves .75% annuals compared to a 30-year fixed rate. At the end of 5 to 7 years, these loans are due in full although a consumer may (with restrictions) roll the loan over to the fixed rates (plus 2%) at the maturity date. These are great loans for individuals who will hold properties for 3 - 7 years but prefer fixed rate financing at lower rates.

None of the above programs have pre-payment penalties under FNMA guidelines and are based on simple interest calculations. The adjustable rate loans may be assumed with restrictions under their original terms, but the fixed rate and balloon programs are not assumable.

(Actual rate differentials may vary from above example)

Points Explained

WHAT IS A POINT?

One point is equal to 1% of the NEW Loan Amount.

WHY DO LENDERS CHARGE POINTS?

Whenever government 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 method of increasing the yield for the investors. By charging points, the lender can bring the real estate loan up to those other investments.

ARE POINTS CALLED BY DIFFERENT NAMES?

Yes, Loan Origination Fee, Commitment Fee, Discount Fee, Funding Fee, etc.

WHO MUST PAY POINTS?

- FHA: The Buyer is usually charged with the Loan Origination Fee; the Discount Fee can be paid by Buyer or Seller.
- VA: The Buyer is usually charged with the Loan Origination Fee and the Funding Fee. Discount Fee must be paid by the Seller.
- Conventional: Points can be paid by the Buyer, the Seller, or split between the two. State on Contract of Sale! City/County/State Government Sponsored Loans: As published by them.

DO THE NUMBER OF 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 this occurs, more points can be charged. Points balance the market. Points are not set by government regulation but by each lender individually.

ON VA LOANS, IS THERE ANY WAY TO LOCK IN THE NUMBER OF POINTS?

Not without jeopardizing the sale. Even when a lender stipulates in writing the number of points to be charged, that guarantee states "if the interest rate is not changed by the government." Points charged on an FHA or conventional loan are usually not changed from commitment time to settlement.

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, long term loans with lowest monthly payments. Sellers receive all cash for their equity to reinvest in a new home or other investment. The purpose of these loans is to provide buyers the opportunity to buy homes with minimal cash investment thus providing a bigger market for sellers.

ARE POINTS DEDUCTIBLE FOR INCOME TAX PURPOSES?

Points on a home mortgage (for the purchase or improvement of, and secured by, the taxpayer's residence) are deductible currently if points are generally charged in the geographical area where the loan is made and to the extent of the number of points generally charged in that area for a home loan. If you are in doubt about points being deductible you should contact your tax return preparer.

Loan Application Information

So you will have the facts and figures with you when you make your application for a mortgage loan, we have prepared this list of some of the questions the loan officer will ask you. Your being able to provide all the information at the first interview will save you time, and save several days in the time it takes to process your application. The lender will require this information as it applies to you and your spouse (or CO-borrower). Be prepared to pay approximately \$50.00 for a credit report, and approximately \$350.00 for an appraisal.

EMPLOYMENT

- Name and address (including zip code) of Employer.
- Rate of pay and current pay stubs.
- How long you have worked there (if less than two years, you will also be asked to give the same information about your previous employer(s)).
- W-2's for the past 2 years.

CREDIT REFERENCES

- Names of banks or other places you have paid off an account in full within the last few years.
- Names of all creditors and credit cards along with account numbers, addresses and zip codes, required payments, and outstanding balances for each.
- Delinquent payments with any creditor will require written explanation.

CURRENT DEBTS

(The lender will be ordering a credit report on you, so please include on the list all items which will show up on a credit report - it will save time in having to give an explanation of unlisted items later.)

- Names of banks, stores, credit card companies, etc., to whom you owe money, including revolving charge accounts.
- Monthly payment and balance owed.
- Account number (or credit card number).
- Child support and/or alimony.

INCOME

- Your monthly income before deductions.
- Average overtime per month and/or second job monthly income.
- Other regular income - investments, royalties, child support.
- Alimony, commissions, (with proof of sales - e.g. tax returns, 1099 forms for 2 years, divorce decree, etc.)

(Should you be self-employed, the following documents are required)

Sole Proprietorship:

- Complete, signed, personal tax returns for the past two years.
- A current, signed Profit and Loss Statement, and signed Balance Sheet.

Partnership:

In addition to the above, the following is required:

- A Schedule K-1's complete, signed, Partnership tax returns for the past two years, and current signed Profit and Loss Statement and Balance Sheet.

Corporation:

- Complete, signed, personal tax returns for the past two years plus current signed Profit and Loss Statement and Balance Sheet.
- If on a Commission Basis: complete, signed, personal tax returns for the past two years, year-to-date signed statement of employee business expenses.

LIFE INSURANCE

- Face and cash value of life insurance policies.

ASSETS:

Household:

- Replacement value of furniture and household items (approximately).
- Jewelry.
- Tools, hobby collections, etc.
- Other things you own which have specific monetary value.

Automobiles:

- Make, model and market value of automobiles.
- Indebtedness of all vehicles.

Banks:

- All banks names, addresses and zip codes, account numbers, current balances for all checking and savings accounts, including credit union accounts, money market accounts, etc.
- Copy of the last two months bank statements on all deposit accounts.

Investments:

- Name of stocks, bonds, mutual funds, etc.
- Market value and number of shares.
- Location and estimated value of any real estate owned. Be sure to include name and address of lender and loan number, monthly mortgage payments, loan balances and rental income, if applicable.
- Copies of leases on all rental property.

PERSONAL

- Copy of Drivers License and Social Security Card for each applicant.
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Loan Application Check list

- ___ Photo Identification/Copy of Driver's License
- ___ Social Security Card
- ___ 7 Years Residence History
- ___ 2 Years of Landlord or Mortgage Addresses
- ___ 2 Years Employment History
- ___ Last 2 Years W-2's and Most Recent Pay Stubs
- ___ self-employed; Signed and Completed 2 Years Tax Returns, Corporate Tax Returns, Current Profit and Loss Balance Sheet
- ___ Commissioned: Complete 2 Years Tax Returns and Current Pay Stub Reflecting Year-to-date Earnings.
- ___ Name, Address with Zip, Account Number and Balance of:
 1. Installment and Charge Accounts
 2. Home Mortgage, all Real Estate Loans
 3. Checking, Savings, Credit Union, etc. to verify funds required to close your loan.
- ___ Copy of Last Two Months Bank Statements on All Accounts
- ___ Child Support Debt or Income: Complete Divorce Decree and/or Property Statement.
- ___ Sales Contract on New Home.
- ___ Sales Contract/Listing Agreement on Present Home.
- ___ Rentals: Lease Agreement (12 Months)
- ___ VA Loans: DD214 and Certificate of Eligibility
- ___ Check to Pay for Credit Report
- ___ Check for Appraisal in the Amount of \$ _____