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## Buyers Guide

Dear Home Buyer,

Congratulations! You are about to embark on the exciting journey of finding your dream home. Whether it is your first home, retirement dream, or an investment property, we hope to make the experience fun and exciting as we find the perfect home for you!

Most people will only decide on a few homes in their lifetime. Therefore, it is a big decision in your life. We believe that in order for you to feel comfortable during this process you will need to be well-equipped and armed with up-to-date information. This guide contains information we think you will find helpful, and will help you know what to expect every step of the way. If this is your first home, I suggest you also check out our Information for First Time Buyers section.

This guide is designed to answer many questions that you, as a home buyer, may have. If you have more questions, you can always contact me.

It is very rewarding to help people find the home of their dreams. I look forward to guiding you on this exciting journey.

*Tracy Wright*

### **The Home Buying Process**

Step 1: Pick Your Team!: Decide who you will work with to help you find a home & mortgage that's right for you. Your REALTOR® and your mortgage consultant are the two most important helpers of your team. From there, your Realtor® can help you select a home inspection company, an appraiser, a title company, and insurance agent and/or a builder as your needs require.

Step 2: Get Pre-Approved: This important first step will help you avoid potential problems and disappointments down the line. Plus, many of our clients have found that by having been previously approved, the offer to purchase was taken more seriously, and accepted over other offers, which were not pre-approved.

Step 3: Selecting Your Home: Finding the right home takes searching. You and your Realtor® can search for homes online, in the paper & magazines, driving around, as well as many other methods. He or she can also help you decide on whether an existing home or new construction is right for you. Work with your Realtor® to determine what home is right for you.

Step 4: Writing a Purchase Agreement: Work with your Realtor® when negotiating and writing a purchase agreement (the offer to buy a home) on a home. Based on your appointment with your mortgage consultant, you should have a solid financial plan with which to begin these negotiations. Understanding and sticking to your plan can save you thousands of dollars when it is all said and done.

Step 5: Inspections: Once you have an accepted agreement on the home, your Realtor® can help you select a company to perform an inspection on the house. This is an important step in securing a safe and well-cared for home.

Step 6: Homeowner's Insurance: Just as you need insurance for you car and health, you also need insurance for your home. Most mortgage companies will require that you have homeowner's insurance to get a loan. It is a wise thing to have to protect your investment.

Step 7: Closing: The closing is when you will submit your funds, sign all of your documents, and become a homeowner! We will be there with you to make sure everything goes smoothly.

Step 8: Possession: Get the keys to your new home & move in!

### **When Should I Start Looking?**

Buying a home is a process which can move quickly or slowly depending on many variables. The time from offer to possession generally will take from 30 to 45 days. Below is an average timeline:

Step 1 -- One to Two weeks: Drive neighborhoods to see where to live.

Step 2 -- During this same week: Meet lender for pre-qualification.

Step 3 -- Two to Four Weeks: Tour new homes with agent. (Note: You'll typically tour between 3 and 15 homes)

Step 4 -- 24 hours to write an offer and wait for reply (48 hours if weekend).

Step 5 -- 48 - 72 hours until offer accepted.

Step 6 -- 3 days after offer is accepted, have final documents to lender.

Step 7 -- Within 14 days of acceptance, have and respond to inspection.

Step 8 -- 20 days after acceptance, have homeowners insurance ordered.

Step 9 -- 30 days after submitting offer, closing takes place.

Step 10 -- One day after closing, move into your new home!

## **Selecting Your Home**

You can take advantage of your Realtor®'s services, whether you are purchasing a new home or a previously owned home. As a member of the Metropolitan Indianapolis Board of Realtors® (MIBOR), we can show you homes that are listed for sale by any real estate agent or company.

## **Key Steps to Finding the Right Home!**

**Defining your Home Search:** As a buyer, you should begin by devising a list of wants. This list should consist of requirements - things that you must have in your home (such as minimum number of bedrooms and bathrooms, maximum price, location and any other things that are important to you). A second list should include preferences for your home - things that you would like, but don't necessarily need to have (fireplace, fenced yard, basement, etc.). Another thing to think about is your purchasing timeframe. How soon do you want, or need to be in a home. These lists will probably change, but will help you, and your agent, look for and find the best homes to look at.

**Choosing Homes to View:** Your agent will provide you with all the homes in the Broker's Listing Cooperative (BLC) that match your criteria. Review these listings and feel free to drive by listings to preview the neighborhood. If the home's features and location are satisfactory, call your agent to schedule a personal tour.

Setting Appointments: As a courtesy to the seller, we try to give 24 hour notice, or as much time as possible, before setting the viewing appointment. Selling agents usually recommend the owners not be present during the viewing; however, this is not always possible.

Viewing Properties: We advise taking notes while viewing all properties. It is easy to forget some of the things you may have liked or not liked about certain homes.

Comparable Properties: When you choose a home and you would like to write an offer, your agent will help you determine a fair price. As a member of the MIBOR BLC, your agent will access the recent sales in that area. By searching these comparable properties (or comps), she or he can show you what other properties have recently sold for in the area.

## **New Home Search**

We match more buyers with builders than any other company in Indiana. Here are some of the services I will provide for you:

I will assist you in selecting the lot, neighborhood and floor plan. These are very important decisions that will help enhance your investment.

I will assist you in evaluating the items that will help increase the resale value versus items that will not add value.

I will explain the builder's warranty and builder's obligation under Indiana law.

I will help you to secure the most competitive financing available for new construction.

## **Estimate of Potential Costs for a Buyer**

Approximate Amount Reason/What for When Due

\$500 - 1% of Purchase Price Earnest Money Acceptance of Purchase Agreement

\$300 Loan Application Fee Loan Application (normally, includes appraisal fee)

\$300 - \$500 Inspection At time of Inspection (depends on inspector & what type of inspection)

\$500 - ? 1 Year of Homeowner's Insurance Before Closing (depends on company & amount of policy)

\$125 - ? Survey At Closing (depends on if you want survey & what type of survey)

\$175 Title Insurance At Closing

(Negotiated in Purchase Agreement)

\$300 Closing Fee At Closing (Negotiated in Purchase Agreement)

\*\$1,000 - \$3,000 Lender Fees and Closing Costs at Closing (varies among lenders & amount of loan, includes appraisal)

\*\$200 - \$1,000 Prepaid Items At Closing (interest, taxes, etc. Depends on many items)

Any Amount Down Payment At Closing

\* Determined by your lender. According to law, your lender must give you an estimated cost form called a Good Faith Estimate (GFE). This will break down all of your lender costs & pre-paid items to a much closer estimate.

\*\* Some lenders require some costs to be paid up front. Be sure to discuss with your mortgage consultant and know what is expected of you.

\*\*\* These are all estimates.

## **Financing Methods**

### Fixed-Rate Mortgage

The interest rate stays the same for the entire term of the loan - usually 15 to 30 years, so the interest and principal portions of your monthly payment remain the same. Your payments are stable and predictable, but initial interest rates tend to be higher on a fixed-rate mortgage than on adjustable-rate loans.

### Adjustable-Rate Mortgage (ARM)

The interest on an adjustable-rate mortgage is linked to a financial index, such as a Treasury security, so your monthly payments can vary, up or down, over the life of the loan - usually 30 years. Some

adjustable-rate mortgages have a cap on the interest rate increase to protect the borrower. The lower initial payments on ARMs make it easier for buyers to qualify.

## **Pre-Qualification vs. Pre-Approval**

### Pre-Qualification

A pre-qualification is usually a telephone conversation in which a loan officer will obtain information about a buyer's cash available for down payment, income that is allowable for qualification, job stability, and current and past credit history.

It is important to understand that a pre-qualification is verbal and little, if any, of the information is verified. A pre-qualification is for the benefit of the buyer so he/she understands his/her price range.

### Pre-Approval

A pre-approval should always involve a complete loan application usually in a face to face interview with the loan officer and the buyer. For a complete pre-approval, a buyer will have to provide:

Bank Statements to verify down payment funds

Paystubs or tax returns to verify income

Address & phone numbers of employers to verify employment history

In addition to these items, a lender will obtain a complete mortgage credit report, not just an in-file report from one bureau.

A true pre-approval should only be subject to a satisfactory appraisal and possibly the closing sale of his/her current home.

As a REALTOR®, we recommend that a buyer be pre-approved before beginning searching for a home.

## **Loan Application Checklist**

Here's a complete list of things you'll need to have when applying for a mortgage:

Name, age, and social security number of borrower and co-borrower.

All household income and/or family income to be applied to loan agreement.

Name, address and phone number of all employers for the past two years.

If a student, please bring a copy of transcripts and/or diploma.

Position and length for time of job(s).

Income-based salary, average overtime, commission, bonus, capital gains, etc.

Documentation of any child-support payments (with a 12 month history as verified by deposit slips, cancelled checks, or court records) if they are to be counted as income.

Verification of social security benefits, VA benefits, etc., including awards letter and copy of check.

If self-employed or commissioned, provide copies of Federal tax returns (with all schedules) for two years and a current business YTD P&L with a balance sheet.

Most recent 30 days paycheck stub.

W-2's for the last two years.

Bank accounts (checking and savings, IRA, CD's, 401ks), including the name and address of the banks, name(s) accounts are in, account numbers, and current balances. Include statements for the last three months.

Stocks and bonds - types, current market value, and copies of last 3 broker's statement.

Life insurance amount of coverage and approximate cash value.

Year, make and current market value of automobile(s).

Approximate value of personal property and furniture owned presently.

Account numbers, monthly payments and current balances of all open credit accounts and loans, including names and addresses to whom payments are made.

Information on any and all paid accounts in relation to No. 8 going back at least two years.

Typed letter explaining any adverse credit history, including bankruptcy. Explain circumstances and furnish copy of schedule of bankruptcy, reinstatement of debts, etc.

If applicable, complete divorce decree, including all amendments and property settlements.

Monthly house/rent payments.

Copy of purchase agreement and listing sheet.

Bring your checkbook. You will need to pay about \$275 - \$350 at the time of the application for an appraisal fee and credit report.

If a property is on a septic system and/or well, be prepared to write a check of approximately \$60 for a Health and Hospital Inspection.

Name, address and phone number of current mortgage company, account number, monthly payment amount and approximate balances, or name, address and daytime phone number of landlord for the past two years.

List of items typically required at closing.

Cashiers or certified check made payable to the title company for funds to close.

Driver's license.

Original homeowner's insurance policy and paid receipt, effective the day of closing.

Additional requirements from a lender may include original termite inspection report, and HUD statement from previously owned home.

### **Writing a Purchase Agreement**

When you select your new home, your Realtor® will communicate with the selling party by means of a written offer. When the offer is accepted by both you, as the buyer, and the seller, it becomes a legal

contract. In Indiana, we use contract forms approved by the Indiana Real Estate Commission. The following information is required when filling out the purchase contract.

**Purchase Price:** This is the amount of money that you are offering to pay for the property.

**Improvements & Fixtures:** These are items that normally remain with the home and are pre-printed into the purchase agreement. Your agent will write in other items that you want included or excluded.

**Method of Payment:** This states the type of financing and the appropriate time needed to obtain financing.

**Closing Date:** This is the day we finalize paperwork, and the deed of the property is transferred into your name! If you will be using the equity from the sale of your current home, the closing dates of each transaction can be easily set. Other factors affecting the date of closing are the length of time the lender needs to approve your loan and the date the seller agrees to give possession.

**Possession: The date you get the keys to the home & move in.**

**Condition Disclosure:** The seller is required by law to fill out a Seller's Disclosure Form, stating whether there are any major problems with the home. If the home was built prior to 1978, Lead Based Paint Certification and Acknowledgement Form is also required. You must receive a signed copy of these forms. The seller must reconfirm the Disclosure Form at closing.

**Inspections:** You can reserve the right to have the property inspected, or accept the property based upon your own examination. It is highly recommended that you have a professional home inspection.

**Taxes:** You can ask the seller for either a proration of the taxes through the date of closing, or for a specific installment to be credited at closing.

**Survey:** Many types of mortgages require a survey location report. However, if you have questions about the boundary lines, or are planning on making physical changes to the property (additions, fencing, etc.), you may want to get a staked survey. This survey would be a substantial cost for you.

**Earnest Money:** This money represents your sincerity in purchasing the home. The amount is negotiable (typically 1% of the purchase price) and is expected at the time the offer is made. A personal check will be acceptable and is made payable to the listing company. The amount deposited is held by the listing company until the time of closing. The money is refundable if the offer is not accepted, financing is not obtained, or the home inspection is not satisfactory. A mutual release must be signed by all parties before the listing office releases the earnest money.

Buyer's Name: Your name should appear in the purchase agreement as you wish to take title to the property.

Signature: In Indiana, once an offer is signed by ALL PARTIES it is considered accepted and becomes a legal and binding contract.

### **Counter Offer**

The purpose of a counter offer is the change the terms of the purchase agreement, which are unacceptable to the parties of the contract.

After a purchase agreement is delivered, the sellers have three options:

Accept the offer as written

Reject the offer outright

Write an offer with terms that are acceptable

After each counter offer, the other parties have the same 3 options.

\*\*\* Remember, successful negotiations are accomplished by a few key points.

When all parties agree on the terms of a contract and have the purchase agreement or counter offer(s) signed, the contract is then in full force and binding upon all parties to the agreement.

### **Home Inspections - What it is and how it can help you!**

What is a home inspection?

A private home inspection is a service ordered and paid for by the buyer to examine and evaluate the condition of your home.

What will the inspection cover?

A typical home inspection includes the structure, mechanical systems (plumbing, electrical, heating & cooling, etc), functional elements (roof, siding, windows, gutters, grading, doors, fixtures, etc), and any

appliances that are included in the sale. Environmental testing (radon, lead based paint, mold etc.) are also available.

What won't the inspection cover?

Cosmetic items, security systems, wells, septic systems, landscaping, pools & sprinkler systems typically are not included in a private home inspection. Also, there is no destructive testing (such as removing panels from walls) involved in the inspection.

What if the inspector finds something "wrong" with the house?

The inspector is not there to "pass" or "fail" a house. Since no home is perfect, the inspector's job is to explain to you the current condition of a home as compared to similar homes. It is reasonable to expect several hundred dollars in minor repairs and maintenance items, but anything major and unexpected can typically be renegotiated with the seller.

What is considered to be a major "defect"?

In the Indiana Residential Real Estate Sales Disclosure Law, a defect is defined as "a condition that would have a significant adverse effect on the value of the property, that would significantly impair the health or safety of future occupants of the property or that if not repaired, removed or replaced would significantly shorten or adversely effect the expected normal life of the premises." A quick definition of a defect could be any condition that would be expensive to repair or replace or affect the habitability of the home.

Can a friend or relative perform the inspection?

In most cases, it is not advisable to have a family friend or relative perform the inspection. Although they may be technically qualified, it is unlikely that they have the specific training and perspective of a professional home inspector. Therefore, the buyer probably won't get an unbiased, impartial and objective evaluation. In addition, they may have all the necessary tools to perform a thorough inspection and probably don't have liability protection in case something was missed in the inspection.

## **Home Warranty**

Why a Home Warranty is so important to your peace of mind.

If you are buying a home, your expenses only begin at closing. Most people have a lot of renovations to make, furniture to buy, etc. So the last thing you want to have to do is to spend additional money for repairs due to unexpected mechanical failures of certain working components in the home.

Benefits to a home owner:

You are covered against the expense of an unexpected repair or replacement for a full year after closing, less the standard deductible.

When the major systems and appliances in your home are protected by a home warranty, both the buyer and seller can relax knowing the protection is solid and reliable. This reliability gives you the peace of mind you want in the home purchase.

Toll free 24 hour claim service. What could be easier when something goes wrong, than making a single phone call? As soon as your call is received your claim is entered into the state of the art computer system. They will then notify a contractor in your area who will verify the claim, prepare a repair or replacement estimate and call their claims department. He/She is then authorized to complete the necessary repairs or replacement on the covered items.

What does a Home Warranty normally cover?

Heating System

Plumbing System

Water heater

Built-in microwave

Exhaust fan

Water softener

Ceiling fans

Refrigerator

Electrical System

Air conditioning/Heat pump

Sump pump

Garbage disposal

Built in dishwasher

Range/oven/cooktop

Built-in trash compactor

Garage door openers

Central vacuum system

Clothes washer & dryer

For an additional cost, coverage for these items is available:

Pools

Pool heaters

Hot tubs

Tub jets

Wells

## **Homeowners Insurance**

Homeowners Insurance protects the buyer and mortgage lender from loss due to fire, storm, lightning, and other types of peril loss and liability.

Homeowners Insurance is required by your mortgage lender and must be purchased before the closing of your home. Remember, you will be expected to pay for a years worth of insurance before closing.

Most insurance professionals have a lot of experience working with homeowners and can offer useful tips about homeownership, particularly regarding home safety and keeping your premiums low. Once you've found a home, work with your insurance agent to develop a homeowner's policy that meets your individual insurance needs.

Be sure you have your insurance professional give you a copy of your pre-paid policy, and receipt for closing!

## **Title Insurance**

When a property is sold or refinanced, the lender and/or the buyer needs a preliminary title report to see exactly what liens and encumbrances are against the property. Items that a preliminary title report show include:

Easements of record

Restrictions, covenants, and conditions

Liens and/or judgements

Exact vested owners of record

Legal description

When the sale of the subject property is final and the attorney has recorded the necessary documents, they will then issue a policy of title insurance to the new lender & the buyer showing clear title to the property.

## **Closing**

As a buyer, you will sign many standard form documents that are several pages. It is not possible to read every page word for word in a typical closing, which lasts 45 minutes to an hour. If you feel it is necessary to read each document word for word prior to closing, special arrangements can be made.

Items you will need at closing are:

A driver's license (or photo ID) for each person on the purchase agreement.

A certified check or cashier's check made payable to yourself (you will endorse this over to the title company at closing).

A copy of your Homeowner's Insurance policy and a paid receipt

The exact amount of money you will need to bring is obtained from the title company after they receive the package from the lender. This typically happens in a time frame ranging from 24 hours prior to closing to as late as just an hour or two before closing, depending on the time of month and workload of the title company (the end of the month is their busiest time).

At closing, we will discuss possession timeframe and key exchange, what date utilities will be transferred and trash pickup. If possession is at closing, both parties must call the utility companies and have the transfer made for the date of closing.

Also at closing, sellers should give buyers any warranties or guarantees on products or appliances left with their home.