

5

THINGS YOU MUST KNOW BEFORE BUYING A HOME

PRODUCED BY
THE HOME BUYERS



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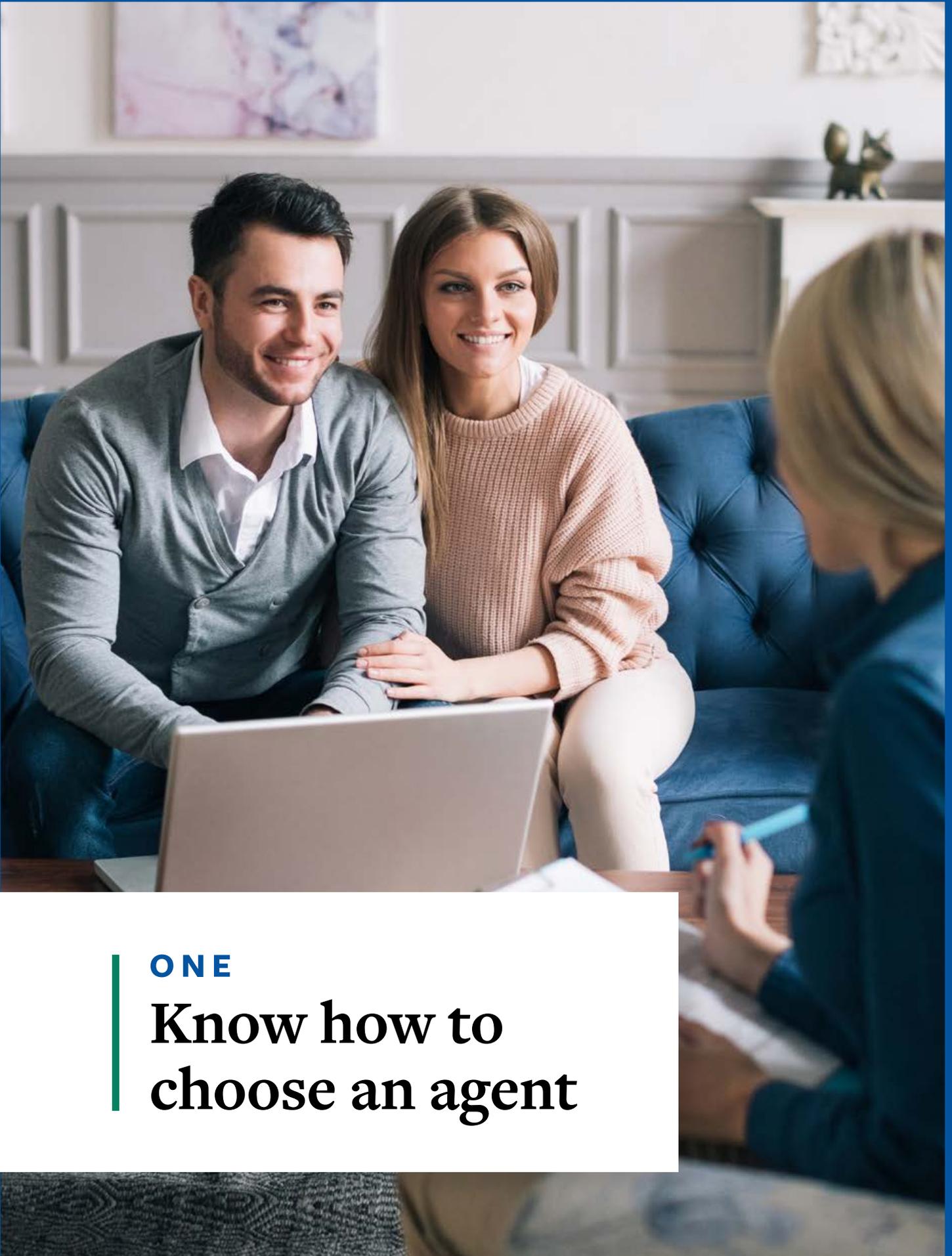
5 Things You Must Know Before Buying a Home

As interest rates remain low, many people are looking to buy their first home and take advantage of the benefits of homeownership. Some of those benefits include the inflation protection that a fixed rate mortgage can provide, the opportunity to build equity, potential tax benefits, and the pride of ownership. When it's all said and done, your home will truly belong to you, and that cannot be overstated.

But, getting to that point can be a challenge, especially for first-time home buyers. First, you have to find the right home to fit your needs. Then, you have to craft an offer that is both appealing to the seller and affordable for your pocketbook. Finally, you have to work your way through the closing process.

It all can be intimidating, but it doesn't have to be. In general, the keys are to be informed, prepared, and have the right agent to help you stay that way. More specifically, there are five things you must know before buying a home.





ONE

**Know how to
choose an agent**

Remember that your agent should be “in your corner;” your partner and your guide throughout the home-buying process. It is SO important to find a real estate agent you’re comfortable with, who you trust, and who is unafraid to be blunt and up-front with you.

Home buying can be an emotional process, even for the most logically-minded people—and the right agent will act as an emotion-blocker. The BEST real estate agent will be unafraid to tell you the hard truth about that beautiful century-old farmhouse with the backyard that you love, and the crumbling foundation that you’re willfully ignoring (spoiler: don’t buy it).

Do your homework prior to choosing an agent. Choose someone who will be exclusively on your side, who can advise you throughout the process. With one of the biggest investments in your life, it makes sense to consider how to choose your agent. Think of it like you’re interviewing candidates for the job of representing you in real estate proceedings. Ask them:

Do you practice dual agency?

When an agent represents both the buyer and seller, it’s called dual agency. This is the case in 10 to 20 percent of real estate transactions, according to the Consumer Federation of America. **It’s also illegal in eight states.** Some would say there’s a good reason for that. Buyers’ and sellers’ priorities differ greatly, so if an agent is representing both, he or she is unable to truly advocate for both parties and their interests. If your agent practices dual agency, ask them how many houses their broker or company lists compared to how many buyers they represent. It’s important to know whether your agent focuses their efforts on the needs of buyers or sellers.



Agent **VS.** Broker

- A **real estate agent** is a licensed professional who represents buyers and/or sellers in real estate transactions.
- A **broker** is an experienced agent who has completed additional training. Sales agents must be sponsored by brokers.
- An **Exclusive Buyer Agent** works within a company that never represents sellers or takes listings.

Because Minnesota's real estate landscape is dominated by large brokers, dual agency transactions are more common than in other states.

How do you get paid, and what is your administration fee, if any, for your services?

Commissions are negotiable. Whatever that percentage is, it's split between the seller's broker and agent, and the buyer's broker and agent. On top of commissions, some brokerages charge administration fees of up to \$700. Be sure to dig into all commission details and learn about all the applicable fees before selecting an agent.

Do you have any Affiliated Business Arrangements?

With an Affiliated Business Arrangement, a real estate broker may legally receive a portion of profits from services like mortgage financing and/or title insurance, leading them to direct the buyers toward a particular vendor or provider. If this discourages buyers from looking into other options available to them, it may lead unsuspecting home buyers to choose a provider that is not in their best interest and/or cost them more to use these services.

Examples of services rendered by Affiliated Business Arrangements



LENDER

Processing, underwriting, and funding loans; and ordering credit reports and appraisals



TITLE COMPANY

Conducting title searches and title examinations, and providing title certificates and insurance



ATTORNEY

Preparing and/or reviewing paperwork, and representing the buyer or seller at closing



HOME INSPECTOR

Examining the home and providing a written home inspection report with results

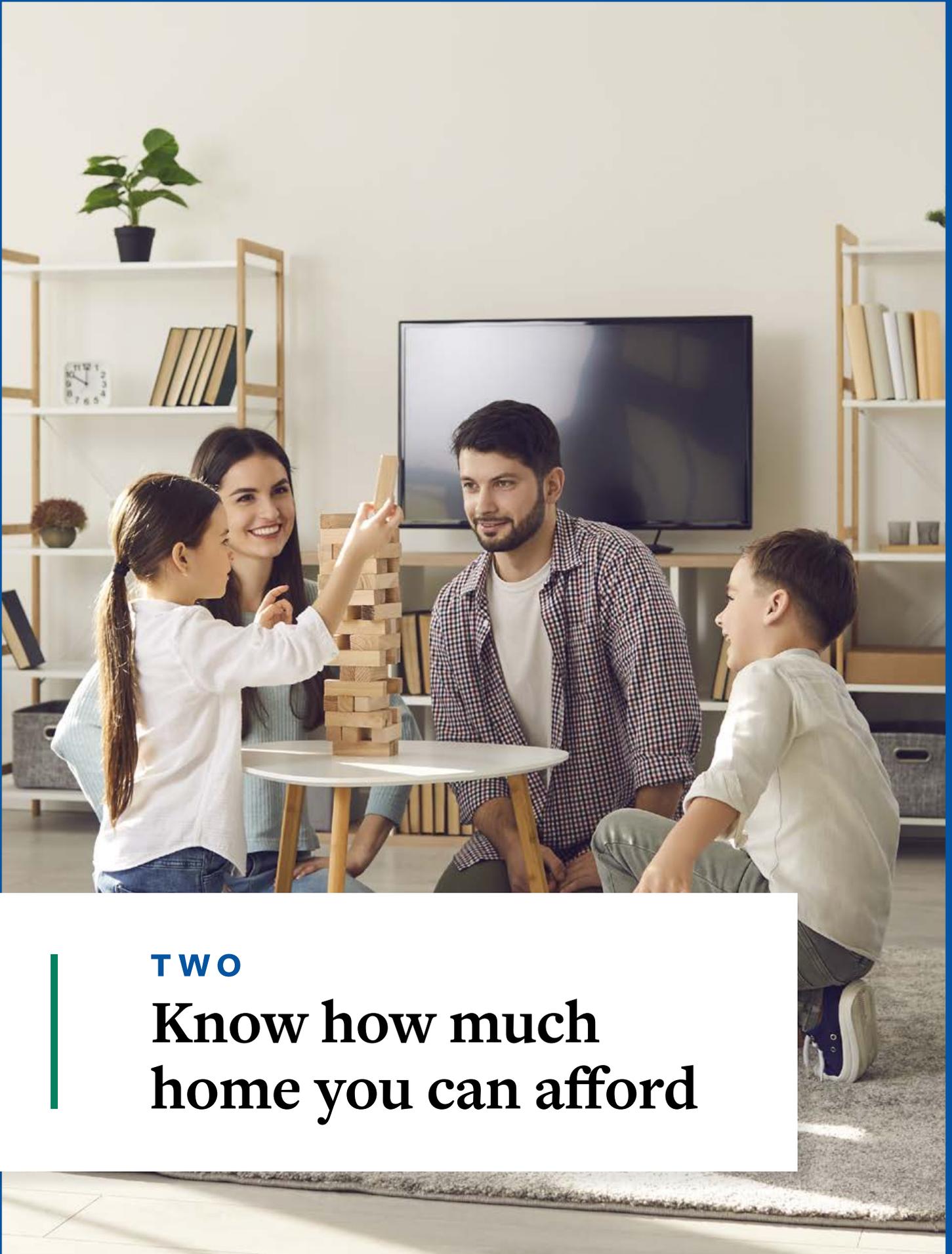


What is your availability? Do you work as a team?

Buying a home is a complex process, and it can be stressful. Having an agent who is regularly available, even at odd times, makes the process go a little more smoothly. It's even better to have a team of agents working together on your behalf, so if your primary agent isn't available, you're not left in the lurch.

Can I cancel our contract at any time?

Extended non-compete agreements are outdated. If you're unhappy with your agent, you should have the right to find a new one and move on with your home search. Don't sign on the dotted line any agreement that says otherwise. If they tell you verbally that you can cancel, still make sure to get it in writing. Otherwise, you aren't able to change agents until the contract expires.



TWO

**Know how much
home you can afford**

When searching for a new home, it's easy to get caught up in the dream home mentality. That's fine if your dream home fits within your budget, but reality is that it might not. Knowing how much you can afford before getting your hopes up is important. Having a real estate agent who will keep your best interests in mind will help in that regard. Take these steps to gather some baseline information to aid in your search:

Seek pre-approval from multiple financial institutions and select a lender:

The first step toward determining how much home you can afford is to get pre-approved for a mortgage. It's prudent to seek pre-approval from multiple lenders, who may offer a wide range of mortgage rates. Just because it might be easiest to work with your existing bank doesn't mean that's your best option (financially) in the long run. However, having too many lenders pull your credit can lower your credit score. Narrow down your list before approving any lender to pull your credit.



Determine your ideal down payment:

Once you determine how large of a mortgage payment you can afford each month, the next consideration is how much of a down payment you can afford. Start by gathering your savings and investment statements. Keep in mind that your down payment is just one piece of the puzzle—you'll need to set aside funds to cover other expenses, like closing costs.

Identify if you'll need Private Mortgage Insurance and how it would affect you.

A big reason why paying a larger down payment is beneficial is it can help you avoid paying Private Mortgage Insurance, which protects the lender if you stop paying your mortgage. If your down payment is less than 20% of the purchase price, you'll likely need PMI. Sometimes, financial institutions allow you to avoid paying PMI with a smaller down payment if you pay higher interest. You'll need to run the numbers to see if such an arrangement would work for you. In most cases, PMI is paid monthly.

Learn about earnest money and determine if it applies to you:

In addition to your down payment, in a competitive market, you'll need earnest money to show the seller that you're serious about buying the property before the purchase is finalized. This is typically between 1 and 5% of the purchase price. It's held in an escrow account until the purchase is complete. Whether earnest money is necessary is a good question for your agent, since they'll have their finger on the pulse of the current market.

Research expenses beyond your mortgage payment:

Especially if you're shopping for homes in multiple communities, be sure to look into expenses such as property tax rates and utility costs, as they can vary greatly depending on where you live. Don't assume that your utility rates will stay the same when you move. Remember that a larger home will result in higher utility bills.

Be proactive and get a quote for homeowners insurance:

Considering the large investment you're making in your new home, you'll want to ensure that it is insured sufficiently. Talk to your insurance agent to get an idea of how much insurance will cost before you purchase your home. Much like with your mortgage, this is another area where it doesn't hurt to shop around.





THREE

**Know what to look for
when visiting homes
(with your agent)**



It might be tempting to swing by an open house or two to check out a home. Doing so can give you a feel for neighborhoods and the housing market. However, it's even better to have your agent arrange a time to visit a home, so you can take your time, check out everything that is essential to you, and ask questions.

ASK YOURSELF:

Is there enough, or too much, room for you now, and in the near future?

If you have a growing family, you want to make sure you buy a home that you can grow into. On the contrary, if you're an empty nester, or will be soon, you want to make sure you don't end up with more home than you need. A large home comes with greater upkeep (and higher utility bills).

Does the home's style make sense for your family?

Your home's floor plan should fit your personality and needs. If you consider yourself a traditionalist, you might appreciate an older home with many walls throughout it. If you have young children to monitor while you're cooking meals, you may lean toward a contemporary floor plan with an open concept. There's also consideration for how many floors you want, and how those floors are configured. For example, you may want all bedrooms to be on the same floor or for the primary bedroom to be on the main floor.

Will you have to replace the appliances, flooring, and/or mechanicals?

Does the living room have green shag carpet that you just can't ignore? Is the furnace 30 years old and on its last leg? Whether your concerns are cosmetic or practical in nature, it's good to have an idea of what additional expenses might come into play once you own the home or shortly thereafter. Maybe you're OK with your home being a fixer upper that needs new features or appliances. At a minimum, you need to know what your tolerance is for dealing with such things.

Do you want a yard?

Some people love to have large manicured lawns. Other people don't have time for that and possibly don't want a yard at all, or want someone else to care for it if they do. Yards can also be a great extension of the home, especially for entertaining when the weather is pleasant. A yard may not seem like a deal-breaker or deal-maker, but it's something to consider nonetheless.

Are there enough bathrooms?

There's a reason why listings always mention the number of bathrooms: it's important. Unless you live alone, it's not ideal to have only one bathroom. Having an occupied bathroom when someone else needs it is a sure source of conflict.

ASK YOUR AGENT:

What do you think of the asking price?

The best person to ask about the asking price is your agent. They'll have the tools to provide data on comparable homes and give you advice on any property's value. If you select an experienced agent – and we recommend that you do – they'll also have a historical perspective of the real estate market in the area, along with an idea of what the home could be worth in the future.

Questions about specific rooms, features, functions, and/or the neighborhood.

Don't be shy. Whether you have questions about the appliances in the kitchen or you're wondering about how cold the upstairs gets in the winter, don't be afraid to ask. Your agent is also a good person to ask about the appeal and/or any drawbacks of the neighborhood. You can also ask your agent about overall pros and cons of the house. Your goal is for your new home to meet or exceed expectations, and the best way to get a feel for that is to not leave any questions unspoken or unanswered.

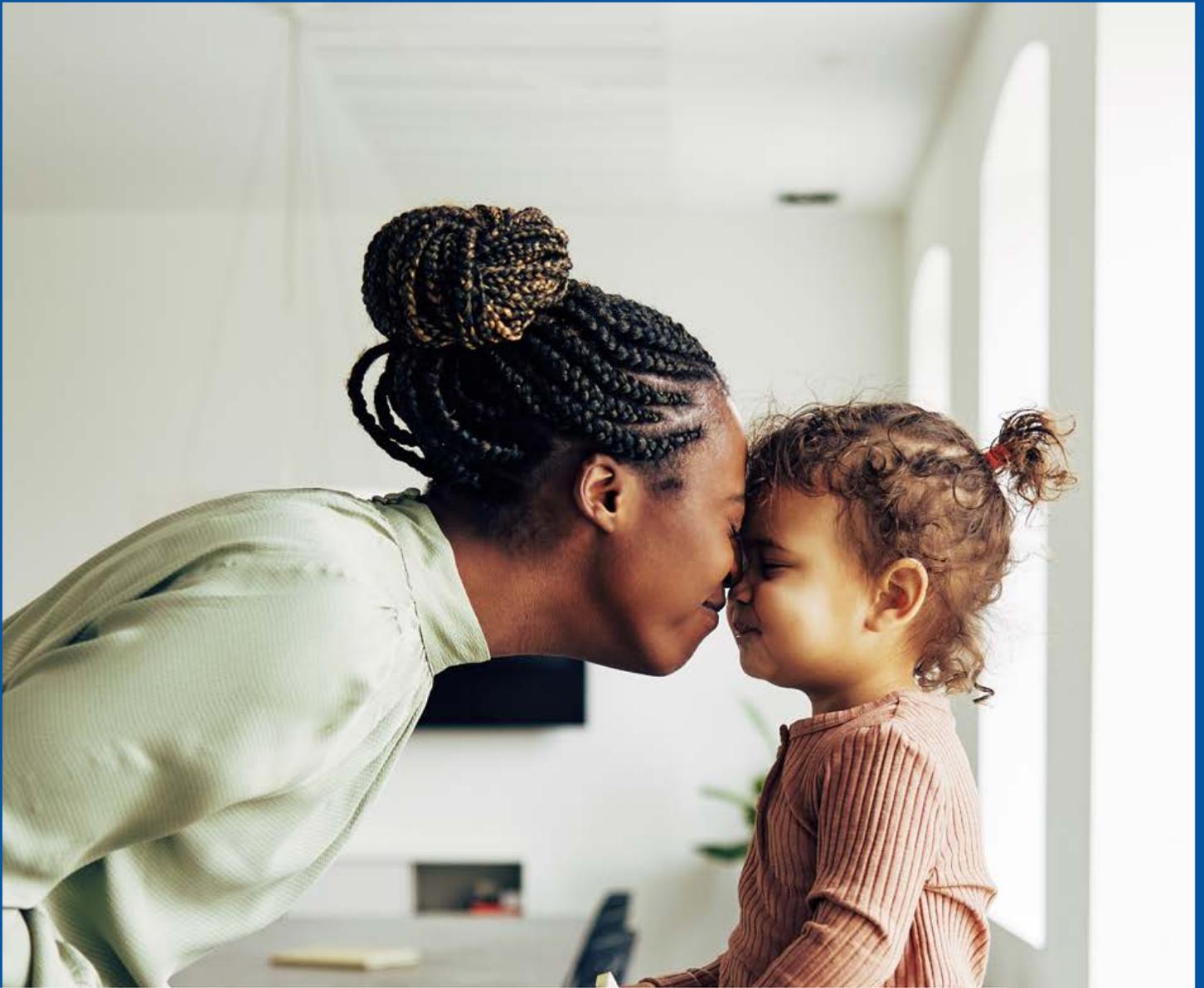




Questions about potential problem areas, such as additions, defects, and/or repairs.

You want to make sure that prior work was done properly and up to code. If there are issues that may need to be repaired, you want an idea of what such repairs could cost. Your agent should be able to get answers for you if they are not immediately available. If you don't feel your questions are being answered, keep asking until you understand and are satisfied.

Note: A good agent who is trying hard to protect the interests of their client WILL be paying special attention to these issues in order to secure the best deal for the buyer. Finding an optimal home in terms of space and style while failing to identify concerns is a scenario a prospective buyer can avoid by selecting the right representative. Most real estate agents aren't licensed inspectors; you should always rely on an expert for advice.



FOUR

**Thoroughly
research the area
you want to buy in**





Maybe you've lived in the same community for many years and you know you want to stay there. Perhaps you're looking for a fresh start in a new community. Or, possibly you're open to considering a number of different communities as you search for the best deal. Even if you're in the first category, it's good to know more information about the community and what homes in the area may be worth in the future.

If relocating, research communities you are interested in.

What kind of community do you want to live in? Chances are you appreciate good city services, nice parks, convenient shopping, etc. Exclusive Buyer Agents can provide welcome kits, maps, and information about schools, churches, and recreational facilities. EBAs only work with buyers, and become experts in market conditions, home-improvement trends, and home values appreciation or depreciation because they're always viewing properties 100% of the time.

Learn what homes are selling for in your preferred community and neighborhoods.

Home sales are a matter of public record in most states. You can contact the auditor's office, a local residential appraiser, or the local planning department; or consult the Multiple Listing Service. You can search these resources for recent sale histories, sale prices, time on the market, and other listing information. Better yet, work with an Exclusive Buyer Agent, who will be able to provide a list of comparable homes in the area that are roughly the same size and age as the home you're considering.

Try to determine what your new home could be worth in the future.

The right agent can help you determine the projected value of your new home over the course of a number of years — and the best agents can do some digging about development/commercial plans in the area. Objectivity is key here, though — if you're not clear on your agent's motives, you could easily misread the information provided. No one can predict future values. However, if you have an agent who can be objective in reviewing the area's activity, they can provide an objective forecast of trends, values, etc.

Once again, your agent should be the best source of information about a prospective area, if the neighborhood has appreciated or depreciated, and what potential values may be in the future. And remember not to wander through neighborhoods looking for open houses. It's much better to lean on the expertise of your agent. Find a trustworthy agent, do your homework (with their help), answer these questions (with their guidance), and feel confident and informed while you search.



FIVE

**Know what you're
(really) getting
yourself into**

So far, we've talked a lot about questions to ask when shopping for and buying a home. Now it's time to talk about what you need to do to protect yourself from a bad real estate deal. The key is being informed. Here are some ways to do that:

Include an inspection contingency in the purchase offer.

In overly competitive markets, buyers have been waiving their right to an inspection. Doing so makes the seller more comfortable, because they know you're not going to ask for concessions or repairs. But, it also puts you at a disadvantage, keeping you from potentially revelatory information about the home, which could cost you dearly in the end.

If you're afraid that asking for an inspection could decrease your odds of getting the house, you could request an inspection with the provision that you won't ask for concessions on anything that costs less than a certain dollar amount to correct. Or you can ask for an informational inspection. In this situation, if a major problem is uncovered, you could walk away, but it would cost you your earnest money. As you can see, inspections protect you and your investment the most and, thus, are still recommended.





Be present for the inspection and ask questions about the inspection report and areas that need attention.

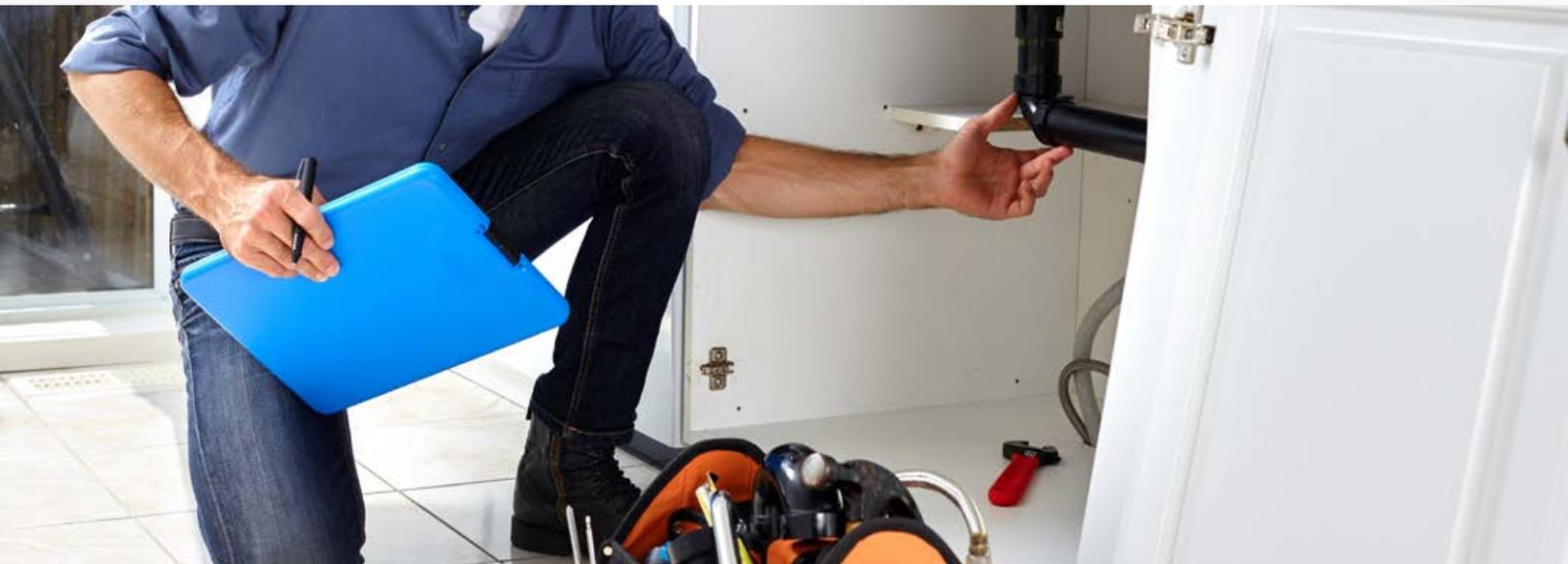
If you want to understand the ins and outs of your next home – and you should – you'll want to be present for the inspection. That way, if the inspection report identifies an issue, you can ask the inspector about the seriousness of it and how it could be remedied. Inspectors have a wealth of knowledge about homes, so they are great people to consult about any concerns you may have

Consider optional tests you can pay for above and beyond standard inspections.

In addition to a standard inspection, you can have a number of other inspections or tests done. The most common optional test for homes with basements is radon testing, and for good reason. According to the Environmental Protection Agency, radon is responsible for about 21,000 lung cancer deaths every year. Detecting it and mitigating it from your home could save your life. Also have sewer lines inspected in order to prevent backups that can cause serious damage and be costly to repair. When purchasing a stucco home, moisture testing is recommended. If your new home has a pool, it should be inspected, as well.

Review the inspection report and the results of any optional tests with your agent.

After attending the home inspection and talking to the inspector, consulting your agent regarding your options is the next step, including how to negotiate with the seller, now that you know more about the home. Local expertise, experience, subject matter expertise, etc. are all key qualities that an agent should have in order to most effectively sort through all the information included in the report.



What real terms are you securing between you and the seller in the case you finally sign the contract? Are you getting the best value? Can you be sure?

The best way to answer these questions is with an Exclusive Buyer Agent by your side. EBA's have knowledge not only about homes, but housing markets overall. They know what questions to ask and how to get the answers you need. Most of all, because they only represent buyers, they have your best interests throughout the entire transaction. And that can give you peace of mind knowing you are making the best decision. That's important, considering buying a home is one of the biggest decisions you will ever make.







The Home Buyers is a dedicated team of Exclusive Buyer Agents.

That means we represent home buyers 100% of the time. EBA's have a fiduciary responsibility to solely represent the buyer's interest in a transaction. This is important, because buyers and sellers are BOTH looking for the best price and the best terms in a sale. Since The Home Buyers never represent sellers, our agents are always on your side—guaranteed.





SIX

A home buyer's checklist

A HOME BUYER'S CHECKLIST

Questions to ask prospective real estate agents

- Do you practice dual agency?
- How do you get paid and do you charge an administration fee?
- Do you have any Affiliated Business Arrangements?
- What is your availability; do you work as a team?
- Can I cancel our contract at any time?

How to determine how much home you can afford

- Seek pre-approval from multiple financial institutions and select a lender.
- Determine your ideal down payment.
- Inquire about Private Mortgage Insurance.
- Learn about earnest money and determine if it applies to you.
- Research expenses beyond your mortgage payment.
- Get a quote for homeowners insurance.

Know what to look for when visiting homes

- Is it the right size for you now and in the near future?
- Does the home's style make sense for your family?
- Will you have to replace appliances, flooring, and/or mechanicals?
- Does it have a yard?
- Are there enough bathrooms?
- What does your agent think of the asking price?
- What are potential problem areas (Additions, defects, and/or repairs)?



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