



# How To Buy A Home Guide



HOMEBUYER  
BROKERAGE





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# Ten Steps to Home Ownership

## **STEP 1-PRE-QUALIFICATION & APPROVAL**

This step is typically done online on a lender's website. Pre-qualification provides a home price range. Once pre-qualified, you will work with your exclusive buyer agent to establish a search in the Multiple Listing Service. You will also begin touring properties.



Pre-approval by a lender is the second step in the home buying process. This step requires the buyer to provide more documentation. Working with an experienced local lender, the buyer typically completes this step within a few days. Once a buyer is pre-approved by a lender a financing contingency (if this has been

included in a contract offer) has been met. This offers reassurance to the seller and indicates that the buyers are fully financially qualified to move forward in the transaction.

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## **STEP 2-CHOOSE A LOAN**

Fannie Mae and Freddie Mac home mortgage companies were created by Congress in 1938.

**Fannie and Freddie:** Federally backed institutions that provide fluidity and stability to the mortgage market. Fannie Mae buys mortgages from large, commercial banks.

Freddie Mac buys mortgages from small banks. After purchasing mortgages from small banks, Freddie Mac sells the mortgages to private investors on the secondary market.

**Cash:** If you are paying cash for a home, you can skip this part. But most homebuyers need to finance the purchase of a home.

There are three basic types of loans -  
Conventional - FHA - VA

**Conventional Loan:** Most buyers use a conventional loan. Conventional Loans are broken down into conforming and non-conforming loans. Conforming Loans follow lending rules set by Fannie Mae and Freddie Mac. A nonconforming loan would be another

option. First-time home buyers qualify for a conventional loan with as little as 3% down if the mortgage meets the requirements of Fannie Mae and Freddie Mac. If a buyer has a 20% down payment, the mortgage insurance is waived. This option requires a minimum credit score of 620.

**FHA Loan:** An FHA (Federal Housing Administration) Loan is backed by the federal government and has as low as a 3.5% down payment. This option works for home buyers with lower credit scores and allows down payments as low as 3.5% with credit scores of 580 or higher.

If your credit score is 500 or less, you may still qualify for an FHA loan, but it would require a 10% down payment.

**VA Loan:** If you qualify for a VA (Veterans Administration) Loan, you'll see benefits including no down payment, no mortgage insurance, and no minimum credit score. However, with VA Loan, there is a funding fee. This fee is a percentage of the loan. The VA Loan is available to retired, active and reserve members of the military. A lender will pull your credit scores, along with information you provide on income assets and debt. The lender determines the price range you qualify to borrow and the terms. With this information, you and your exclusive buyers

agent can decide on the home price range that works best for you.

If you don't currently qualify, the lender will advise on steps to take for qualification.

Your lender will go over the options available and explain points, down payments, and the importance of making no major purchases at this time.

When a contract offer is completed and signed by the buyer, it is submitted to a listing agent. The offer is accompanied by a letter from the



lender indicating your ability to purchase the property.

Your lender will go over loan options to find the best loan package for you.

It's important to not make any major purchases, like a car, when you are going through the loan approval process.

## **IMPORTANT INFORMATION ABOUT CLOSING COSTS**

When determining the cash needed for closing, you will have closing costs and a down payment. Closing costs cover a wide range of expenses necessary to secure a loan and to transfer the title from Seller to Buyer.

The most expensive items lumped into the “closing cost” category are loan origination fees and discount points, title insurance, and state and local taxes. Loan origination fees are what the lender is getting paid to help process the loan. Discount points are what you may pay to bring down your interest rate. Paying one point



at settlement (equal to 1% of the loan amount) will reduce your interest rate by one quarter of one percent. This is optional, depending on your available cash and what monthly payments you will have for the life of the loan.

Title insurance is a onetime purchase, made at closing, that protects you and your lender against legal claims made on the ownership of your new home. While rarely used, title insurance can save you from large legal fees if there is a claim on your title. Your lender will require you to purchase title insurance to cover them for the period of the loan. Purchasing your own coverage is optional, but highly recommended by most people in the real estate industry.

State, county, and local taxes are also paid at closing. These costs are determined by each taxing jurisdiction and are based on the sales price of the home.

Here are some other fees you may encounter at closing:

- Property taxes - Sometimes the Seller has paid taxes ahead and you will be reimbursing them. You also may end up paying a few months of your upcoming property tax bill at closing.
- Escrow account setup - This helps fund the escrow account that the lender establishes to pay your property taxes



and homeowners insurance in the future.

- Homeowners insurance - You will pay your first year of homeowner's insurance up front.
- Title and settlement fees - These fees include the title attorney's work, recording fees, title search fees and other incidentals.
- Additional lender fees - These can include processing and underwriting fees, credit report and tax service fees, flood certification and other incidentals.

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### **STEP 3-CHOOSE YOUR REPRESENTATION**

We suggest keeping it simple.

Choose to work with an exclusive buyer agent or broker. These real estate agents work for brokerages that never take listings and never represent sellers. They are buyer-focused with



the single purpose of serving the needs of homebuyers.

### **Who Represents You?**

1. Listing agents & their brokerage represent the interest of the home seller. the best interest of their client-the home seller.
  2. Dual agents have buyers & sellers sign a dual agency agreement which states that the agent will represent both parties in the transaction.
  3. Buyer Agents work for brokerages that have both listing agents and buyer agents. Depending on the brokerage, this buyer agent could be in the same office or brokerage that is representing the person selling the house you want to buy.
  4. Exclusive Buyer Agents work **only** for home buyers. No dual agency, no listings or in-house inventory-JUST BUYERS ALL THE TIME. At the [HOMEBUYER BROKERAGE](http://www.homebuyerbrokerage.com), we advocate for home buyers in every real estate transaction.
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### **STEP 4-CREATE A NEEDS & WANTS LIST**

The needs on a list are necessities and the wants are the perks. Write your needs & wants list down so you and any other buyers have a

clear understanding of expectations. Once there is a basic framework, your exclusive buyer's agent will set up a home search through the Multiple Listing Service.



The MLS is an online platform where listing brokerage places their listings. *For example: Needs - "We have to have 3 bedrooms, we have to be in the Kennedy school district, walkable to Metro."*

*Wants - a fireplace, a yard backing to woods or greenspace, a large tree for a tree swing.*

Using the MLS, HomeSnap and other online home search sites, you and your exclusive buyer's agent create a list of houses of interest. Evaluating the lot, location and neighborhood for a property takes clear communication with your exclusive buyer's agent. For example, the MLS pictures of a property may show an expansive back yard on a cul-de-sac.

However, using Google Maps you may find the property backs to a busy road or high-power lines. Knowing this prior to visiting a property is a critical first step in the evaluation process.

### **A few things to consider:**

- Reliability of information on secondary sources-the MLS is regulated and required to provide timely accurate information.
- Home search online sites show many listings along with agent and lender advertising. One popular home search site offers comparative market analysis and property estimates. Remember, the information on home search sites other than the MLS can be inaccurate or just wrong. Because of the ease of use for these online sites, consumers are led to believe the information is correct.

**For example, read this disclaimer from Zillow on the accuracy of the Zillow Zestimate:**

***“The nationwide median error rate for the Zestimate for on-market homes is 3.2%, while the Zestimate for off-market homes has a median error rate of 7.52%.”***

## **STEP 5-DETERMINE THE OFFER PRICE**

The seller and listing agent establish the Sales Price of a house for sale. The house goes active on the MLS and the market reacts to the price. You, the buyer, are the market. By checking the days on the market (DOM) and comparative properties, buyers can determine



if the home is overpriced, fair, or lower than other comparable homes.

To determine the value of a particular house, exclusive buyer agents find properties similar in the year built, square footage, lot size, number of bedrooms, number of bathrooms that have recently sold in the same geographical area.

Based on the analysis of similar properties, you can determine an offer price.

### **Other things to consider:**

- The master plan for the neighborhood



- The location of a property
  - The condition of properties adjacent and/or close to the property of interest
  - The FEMA flood map and flood history of the neighborhood and home.
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## **STEP 6-MAKE AN OFFER-WRITE A CONTRACT**

In the Washington DC/Baltimore area, a standard contract written by real estate lawyers is used to make an offer. The three main contracts used by real estate agents are the Maryland Association of Realtors (MAR) contract, the Greater Capital Area Association of Realtors (GCAAR) contract and the NVAR contract used in Northern Virginia.

1. Your exclusive buyer's agent will review the contract in person or via Facetime or



Zoom. All details of the offer will be

written into the contract and signed, usually electronically.

2. Earnest Money Deposit-written to the settlement agent/attorney or Brokerage and deposited in an escrow account until settlement. Just prior to settlement, these funds are added to the buyer side of the transaction.
  3. Lender Letter-a document provided by your lender and submitted with the offer.
  4. When all parties agree to the terms of the contract, it is a binding agreement. The first day after all parties have signed all details of the contract and agreed to its terms, is day one on all deadlines and contingencies in the offer. These contingencies include but are not limited to financing, appraisal, inspection.
  5. Tell your lender and exclusive buyer's agent if you have a change in employment.
  6. Apply for homeowners insurance within days of contract acceptance.
  7. The settlement date is typically set four to six weeks after the contract has been accepted. The contract must be signed by all parties to be valid.
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## **STEP 7-THE HOME INSPECTION**

A home inspection is a critical part of the home buying process. In competitive situations, a

buyer may do a pre-contract inspection. In a pre-contract home inspection, the buyer pays for the inspection before submitting an offer. The buyer pays out of pocket for the inspector to evaluate the major systems and roof. The pre-contract inspection is a limited inspection.

The home inspector may suggest hiring a structural engineer or additional inspections for



mold, radon, or lead-based paint.

**Home Inspection Report:** The inspector provides a detailed report which is reviewed by the buyers. If there is a home inspection contingency, the report and a list of repairs or credits will be sent to the sellers for review and negotiation.


1. The home inspector works for you. They evaluate the condition of the property and provide a detailed inspection report. Your inspector will answer all your questions about the property.

Remember, you are paying for their expertise so ask away!

2. You and your exclusive buyer's agent will review the home inspection report. Depending on how the home inspection was written, (right to negotiate, right to cancel, as-is) you and your exclusive buyer's agent will create a home inspection notice to be sent to the listing agent along with a copy of the home inspection report.
  3. If you've included the right to cancel based on findings in the home inspection, you will have the right to void the contract.
  4. Condo & HOA document review period is a state and District mandated review period for all buyers purchasing property in a condominium or homeowners association.
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## **Condominiums & Homeowners Associations**

When purchasing a condo or home in a homeowner's association, there is a review period to evaluate the governing documents for the association.

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- **Washington, DC Condo Review Period is 3 business days**
  - **Maryland Condo Review Period is 7 calendar days**
  - **Virginia Condo Review Period is 3 calendar days**
  - HOA document review periods vary so be sure to ask your exclusive buyer's agent for this period. This review period begins the day after you receive the documents from the listing agent and seller.
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## **STEP 8-PREPARING FOR SETTLEMENT**

The settlement attorney brings the parties together to complete the transaction. This person(s) plays a major role as they will research the history of the property, so the deed is free and clear of liens or issues; explain the different types of title insurance; schedule the survey of the property; coordinate the funds, settlement time & closing documents for seller and buyer to sign. Your lender, agent, and closing attorney work as a team to facilitate a smooth real estate transaction. While you should always be aware of deadlines, you can expect your team to guide you through the process.



## **Cash required from the buyer:**

- Down payment
- Closing costs (unless otherwise negotiated in the contract)
- Home inspection
- Termite inspection (and any additional inspections like well & septic, radon)
- First year's homeowner's insurance (either directly out of pocket or on the closing settlement sheet as a closing cost)

## **Time is of the essence after ratification.**

**Respond as quickly as possible to requests from the lender and settlement office.** The settlement office facilitates the transaction, holds the funds, and coordinates the details of the settlement.

## **Closing Costs:**

When determining the cash needed for closing, remember you will pay closing costs and down payment. Closing costs cover a wide range of expenses that are necessary to secure the loan and to transfer the title from Seller to Buyer.

The most expensive items lumped into the "closing cost" category are loan origination fees and discount points, title insurance, and state and local taxes. Loan origination fees are what

the lender is getting paid to help process the loan. Discount points are what you may pay to bring down your interest rate. Paying one point at settlement (equal to 1% of the loan amount) will reduce your interest rate by one quarter of one percent. This is optional, depending on your available cash and what monthly payments you will have for the life of the loan.

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- Homeowners insurance - You will be paying your first year of homeowner's insurance up front.
- Title and settlement fees - These can include a fee for the title attorney's work, recording fees, title search fees and other incidentals.
- Additional lender fees - These can include processing and underwriting fees, credit report and tax service fees, flood certification and other incidentals.

Your lender will provide a close estimate of your closing costs. This will be given to you prior to making a loan application. After making your application, you will receive your official Good Faith Estimate. Total closing costs can be between 2.5% to 6% of the sales price, depending on the transaction.

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## **STEP 9-SETTLEMENT**

The settlement office frequently holds the earnest money deposit funds in an escrow account. The settlement attorney coordinates all funds for the real estate transaction. The attorney will review the history of the property to determine the deed is free and clear of liens.



The settlement office/attorney offers title insurance, coordinates the funds for the settlement, and generates and collects all closing documents from sellers and buyers for signature on settlement day.

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## **STEP 10-CONGRATULATIONS! YOU OWN A HOME!**





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