



## **Home Buying Guide**

Congratulations on your decision to purchase a home! Buying a home is one of the largest purchases and biggest investments most people will make in their lifetime. It's important that you understand the process and market so that you are able to make educated decisions along the way.

As your REALTORS, we will give you advice on market conditions, the estimated market value of the home you are considering, the condition of the home, as well as any potential resale issues you might face in the future. If you decide to move forward with an offer, we will advise you on how to make an offer that will give you the best opportunity to achieve your goals and ultimately end in the successful purchase of your new home.

We developed this step by step guide to help you become more comfortable with the home buying process. While we've tried to include every aspect of the process, it is impossible to foresee what questions you might have along the way. Please use this as a resource, but more importantly, do not hesitate to ask questions along the way. Please note that this guide addresses mostly the process for purchasing an existing/resale home from an individual. The process is a little different when purchasing a new home from a builder and each builder has their own contract forms. Should you decide to purchase a new home from a builder, we'll advise you of the process, review and go over the contract with you and make sure your best interests are represented along the way!

### **Step One - Preapproval for a loan**

If you're like most people, you will need to finance the purchase of your new home. The loan process is by far one of the most stressful steps in purchasing a home. The

lender criteria have changed dramatically in the last few years as a result of the most recent recession, and continue to change on a regular basis. It is critical that you visit with a mortgage professional, or two or three, **well in advance of actually looking at homes** on the market. There is nothing more frustrating than finding the home you love, only to find out you cannot qualify for the loan. Most sellers will require a preapproval letter from a lender before accepting a contract offer.

A lender will look at several different things to determine if you qualify for a loan and for what amount. They will first of course look at your income. They'll also consider the source of that income. If you are self-employed, you'll most likely need to have at least two years history of being self-employed in that same profession and two years tax returns. They'll also consider your debt to income ratio, amount of funds available for a down payment and your credit scores. Many buyers find it surprising that, no matter how much money they have in the bank, if they do not have a steady and reliable source of income (i.e. a job), they cannot qualify for a loan. The issue of self-employment and how long the buyer has been self-employed is one of the most difficult issues to address and there is very little flexibility here. Bottom line, if you are self-employed, make sure you have two years under your belt or expect a difficult time getting a loan, if you can get one at all. Bonus income used to qualify needs to be received from the same company for 2 years on the same job. Income that is royalty, retirement, alimony, child support, contract work, etc. must have a continuance for at least 3 MORE years to use it. As a general rule, no more than 33% of your gross monthly income can be used for housing payments.

Your credit scores will be another key consideration, with a score of 720 or higher being considered excellent credit.

The amount of down payment required will vary on the loan product and will also affect your interest rate. 100% financing is still available for VA loans and some special products are available from specific lenders for professionals such as doctors, dentists and professors. FHA loans are available with as little down as 3.5% and conventional loans are available with as little down as 5% for qualifying buyers. In order to avoid private mortgage insurance, you will need to put at least 20% down or secure a first and a second mortgage. Note that the second mortgage will have a higher interest rate.

It is recommended that you work with a mortgage professional who is local and not internet based. Many times an internet lender will over promise and under deliver, ultimately costing the buyer money in the long run. There are several extremely competitive mortgage lenders based locally that can offer low interest rates, while still

delivering top quality service. Things to consider when making a decision on a lender are not limited to fees and rates, but should also include how responsive and how accessible the lender or mortgage professional is, including weekends and holidays. We have included a list of trusted mortgage professionals at the end of this guide. Please note that you of course are welcome to use whatever lender you prefer and we encourage you to shop rates and fees. However, you should make a decision very early in the process, preferably before you make an offer on a home. Changing lenders in the middle of a transaction could cause a delay in closing, require an amendment to extend the close date and a seller might not agree, thus jeopardizing a successful close. Please do any lender shopping before making an offer on a home if possible, and at a minimum make a firm decision within the first couple days of being under contract.

Finally, as a buyer, you should be prepared for the loan process. Do not add any additional debt, do not change jobs and do not spend a significant amount of money over and above the usual, immediately before or during the loan process. What used to be a very simple process has become extremely complicated and document intensive. The important thing to remember is, if the loan underwriter requests documentation, no matter how trivial it may seem, the loan cannot be completed without the information. Pulling the last two years of tax returns at the very beginning of the process will be very helpful. If you are self-employed, you should have a profit and loss statement for the past two tax years ready. Keeping a positive attitude during the process will help!

Once you decide on what mortgage professional you are going to work with, they will be very important from the very beginning. When you find the house you want to make an offer on, we'll need to submit your lender pre approval letter with that offer. We will contact your lender and provide him or her with the information they need in order to draft the letter we'll submit with your offer. Most sellers will not consider your offer or respond until they've seen your lender letter.

## **Step 2 - Finding Your New Home**

**Location** - Deciding on where you want to live may be the single most important factor in choosing a home. Location to your employer, shopping centers, schools, major traffic arteries and other attractions are important and can have significant influences on value. For example, in Austin, Texas, the closer a property is to downtown, the higher the value of the property. An area that has excellent schools will also tend to have higher values than an area where the schools are not as good. The commute time to and from work usually is one of the most important factors in

deciding on where to live. Your choice of location may be limited somewhat by the price you can afford. Even so, make sure you consider such things as:

- Prices of properties and property tax rates
- Distance to work, school, shopping, and entertainment
- Proposed changes in land use such as commercial shopping centers, roads, and potential hazards such as flooding and noise from a nearby airport or major road/highway.

### **Type of home and lot**

A single family detached home typically provides more living space and land area than other types of living units and permits you greater freedom (less restrictions) to remodel, expand, paint, and alter the appearance.

If you don't like spending leisure time on yard work, consider a condo or garden (patio) home. Condos and garden homes often share greenbelts or use of private recreational facilities such as swimming pools. Many of these communities are gated. Keep in mind that there will likely be much higher homeowner association (HOA) fees with these types of properties. One option is to purchase a single family home and pay a landscaping service to maintain your yard. These are often very affordable and considerably less expensive than HOA fees associated with a condo community.

### **New vs. Older Home**

Preowned homes, or resales as they are called in real estate, usually have established yards and the neighborhood or subdivision is usually more built out. On the other hand, they may need more maintenance or need some updating.

New homes typically (but not always) have a one year complete warranty and a ten year structural warranty. In addition, there are usually manufacturer warranties on major appliances, fixtures, faucets and even the windows. However, you will likely need to have landscaping added. If building is still ongoing, you may have to endure noise and traffic from construction crews. Trying to resale a home before the subdivision is built out is often very difficult and many times requires a substantial decrease in price, compared to what the builder is offering at the time.

It's important to talk to us about your likes and dislikes and discuss the pros and cons of different homes, so we can better assist you in finding your new home and advise you on any potential resale issues.

### **Step Three - Making an Offer**

Once we find the home you want to purchase, we will prepare a market analysis to determine what other similar homes in the area have sold for in the past six months. This not only will help guide you in making an offer that is most likely to end with you going under contract, but also will help guide you so that you don't pay too much for the home. We will help you prepare a written offer that includes many negotiable items, other than price. We will help ensure that the terms of the contract are beneficial to you as the buyer and help you negotiate from a position of strength, so that you get the best deal for your new home, under the current market conditions. Keep in mind that market conditions might necessitate paying more than asking price. This happens when inventory is low and a particular area is highly sought after; the market becomes an extreme seller market. On the other hand, when inventory is high and the number of buyers is small, an extreme buyer market results, with homes typically selling for less than asking price. We will help keep you apprised of the current market conditions so that you can make an educated decision on what to offer and ultimately what to pay for your new home.

### **Contract forms**

The Texas Real Estate Commission has standard, promulgated forms we are required to use in any resale contract. When purchasing a new build, the builder will have their own contract. The offer, once negotiated and accepted, will become a legally binding contract. It is one of the most important documents you will sign because it lays out all the terms of the transaction. It is critical that you read the contract BEFORE signing and make sure you completely understand all the terms and conditions. It contains (see below for explanation of some terms):

- A legal description of the property
- What legally conveys with the home as part of the real property (blinds, curtains, fireplace screens, etc.); note that in Texas, refrigerators, unless they are the built in type, do not legally convey as real property. They may at times be negotiated into the contract on a non-realty item addendum
- The price
- Financing conditions and contingencies
- Amount of earnest money deposit
- Amount of option money and length of option period
- Name of the escrow agent and title company
- Proration of insurance, taxes and interest
- Title Insurance Information and who pays for same

- Fees to be paid and who pays for which
- Rights to inspect the property
- What repairs will be made, if any
- Closing and possession dates (not always the same)
- What happens if either party defaults on the contract

## **Inspections and Warranties**

You will want to take precautions to protect yourself against unseen defects in the home. An inspection by a qualified and licensed inspector can provide you with an unbiased opinion about the condition of the home including the foundation, mechanical systems, plumbing systems, appliances, etc. Keep in mind that no inspector can catch every issue, but they should be able to catch major issues that are not hidden or are otherwise undetectable. We always recommend that any sprinkler system be inspected and the property be inspected for wood destroying insects and conducive conditions for same. You will need to pay the inspector at the time of service. We recommend that you join the inspector at the home at the end of the inspection so that you may go over with the inspector any issues found. Attached is a list of inspectors that we know to be very thorough. You can also find a list of licensed inspectors at [www.trec.state.tx.us](http://www.trec.state.tx.us) under "Inspector Information".

Most contracts are negotiated to include a one year residential service contract, or home warranty, paid for by the seller. This is basically an insurance policy that will cover the appliances, including the HVAC, in the event a covered appliance malfunctions during the first year, with a service charge being all that is paid by the home owner (you). Please note that these are typical of any insurance company in that they will always attempt to repair an appliance before replacing.

## **Seller's Response**

We will present the offer to the seller's agent or seller. The seller can either accept the offer as is, reject it completely, or make a counter offer. If the seller makes a counter offer, you then have the same three options (accept, reject completely, or counter). This process goes on until all terms are agreed upon by both parties.

## **Binding Contract**

Once you and the seller agree to the written terms and both of you sign the contract, the document becomes a **legally binding contract and all terms will need to be adhered to, including, but not limited to delivery of option and earnest money**

**checks, discussed below.** Be sure that you pay close attention to the terms. Otherwise, you may waive some contractual rights.

The contract may also set out other contingencies that have to be satisfied, so read the contract carefully and comply with its requirements.

## **Earnest Money**

The contract will call for a deposit of some amount of "earnest" money with the title company or third party escrow agent. While the amount is negotiable, most sellers like to see a minimum of 1% of the sales price deposited as earnest money. The earnest money shows how serious you are in your offer. Should you default on the contract, the seller may take your earnest money as liquid damages, or they may sue you for performance of contract, but not both. The earnest money will go towards your closing costs, and then if the amount is more than your closing costs, the remaining will go towards your down payment.

## **Title Insurance**

When you purchase your home, how can you be sure that there are no problems with the home's title and that the seller really owns the property? Problems with the title can limit your use and enjoyment of the property, as well as bring financial loss. That is what a title search and title insurance is for.

After your sales contract has been accepted, a title professional will search the public records to look for any problems with the home's title. This search typically involves a review of land records going back many years. More than 1/3 of all title searches reveal a title problem that title professionals fix before you go to closing. For instance, a previous owner may have had minor construction done on the property, but never fully paid the contractor. Or the previous owner may have failed to pay local or state taxes (See below for some other common title problems). Title professionals seek to resolve problems like these before you go to closing. What happens if a problem arises after you move in? Read on...

## **The Owner's Title Policy**

Sometimes title problems occur that could not be found in the public records or are inadvertently missed in the title search process. To help protect you in these events, it is recommended that you obtain an Owner's Policy of Title Insurance to insure you against unforeseen problems.

Owner's Title Insurance, called an Owner's Policy, is usually issued in the amount of the real estate purchase. It is purchased for a one-time fee at closing and lasts for as

long as you or your heirs have an interest in the property. Only an Owner's Policy fully protects the buyer should a covered title problem arise with the title that was not found during the title search. Possible hidden title problems can include:

- Errors or omissions in deeds
- Mistakes in examining records
- Forgery
- Undisclosed heirs

An Owner's Policy provides assurance that your title company will stand behind you – monetarily and with legal defense if needed – if a covered title problem arises after you buy your home. The bottom line is that your title company will be there to help pay valid claims and cover the costs of defending an attack on your title. What party pays for the title policy premium is a negotiated term of the contract where the home is a resale, but most often the seller pays for the title policy. When purchasing a brand new home (new build), each builder is different on whether they will pay for the title insurance premium or not. More often than not, the buyer will be responsible for paying the title insurance on a new build. It's important to make sure you read and understand the terms of any contract. No matter who pays for the Owner's Policy, the fee is a one-time fee (regulated by the Department of Insurance and based on the purchase price) paid at closing. The Owner's Policy protects you for as long as you or your heirs have an interest in the property.

### **The Option Period**

In Texas, the buyer may negotiate for an option period, during which time he or she may terminate the contract for any reason whatsoever. The cost of the option period and the length of the option period are also negotiated terms. The amount of the option fee will for the most part increase for longer option periods and according the price of the home, with higher priced homes requiring more option money. We will help guide you on what is an appropriate amount to pay for an option period and how long you will need the option period to be. This is determined by the amount of due diligence needed on the house such as inspections and permitting research. For the most part, the option fee is minimal and is credited towards the buyer's closing costs at the time of closing. If you ultimately decide to terminate the contract during the option period, you will receive your earnest money back, but lose the option money to the seller and any money you have spent on inspections and other due diligence. An example of amounts typically seen for option fees are \$200 for a 7 to 10 day option period for a house priced in the range of \$200,000 to \$500,000. A longer option period will usually require more money, as will a more expensive home.

During the option period, you will want to have the home inspected. Depending on what the inspector finds, you may need to do more inspections (for example on the

foundation or roof). In addition to the house, if the property has any of the following, they should be inspected: pool, septic tank, well, elevator. You may need to get estimates on repairs needed. Once all your due diligence has been completed, you may want to present the seller with a proposed amendment for repairs or dollars off in lieu of repairs. We will help guide you on repair requests, but the decision is ultimately yours on whether you will ask for repairs. The seller again may accept, reject or counter your proposed amendment. If an agreement cannot be reached, you may terminate the contract and receive a refund of your earnest money, but only if done during the option period. Sometimes there are other times a buyer might be able to terminate the contract outside of the option period and not be considered in breach of contract, thus entitled to a refund of the earnest money, and we will be able to advise you of such circumstances. For the most part, if you want or need to terminate the contract, it should be done during the option period, ensuring there are no questions on whether or not you are entitled to a refund of your earnest money.

### **Loan approval process**

You may be thinking...but wait, didn't you say we were preapproved? Yes...and no! A preapproval letter issued at the very beginning of the transaction is just a first step. It is usually conditioned on many things that the lender will need to verify. From a lender's viewpoint, approving the loan, based on your financial standing, is only part of the risk; the other part is the property itself. The lender will likely require a third party appraisal to verify that the home is worth the loan as well as a physical survey to discover any encroachments on the property. Repairs may be required by the lender, but not often. A lender will require property insurance to be purchased. We can provide recommendations of several very good insurance agents. Verification of employment, deposits, and other matters must be obtained. Remember, while under contract, do not add any additional debt, make any big cash purchases, change employment or do anything else that might affect your ability to secure the loan for the home.

### **Step 4 - The Closing**

After weeks and sometimes months of looking at homes, going under contract and doing due diligence on the home you've decided to purchase, the closing finally arrives. The "escrow period" is the time from the execution of the contract (where all signatures are finalized) through the day of closing. This is usually 30 to 45 days and depends on the amount of time needed to inspect the property, time for the seller to make any agreed upon repairs, time for the seller to move out and of course time for the lender to give final approval of the loan. Once the lender has given "clear to close", the loan documents are sent to the title company and the escrow officer prepares the file for all parties' signatures. The closing typically takes one hour, but

can be more, depending on the complexity of the transaction and if the buyer has questions that need to be answered.

The day of closing, or sometimes a day or two prior, we will do a "walk through" of your new home to make sure all is in order. We will be looking to make sure there has been no unexpected damage to the property, confirming that negotiated repairs (if any) have been completed, making sure no part of the real property has been removed and confirming any negotiated non realty items have been left at the property. If anything is found amiss, we will do everything we can to have the seller correct the issue. Sometimes this requires the buyer refusing to close until the seller "performs to contract." Our leverage is not closing until the problem has been corrected. Closing before the problem has been corrected often results in no action taken by the seller. Usually we do not encounter a problem on a walk through, but if we do, it is important to understand that not closing until the problem has been resolved is your strongest leverage. Sometimes this presents a challenge if furniture has been scheduled to be delivered the next day. Working through these types of issues can often be challenging, but we will do everything we can to get the seller to perform to contract.

Before the closing, your lender, or title company, will prepare and deliver the closing statement for your review. This is an accounting of the costs involved in the transaction and will include what amount of money the buyer needs to bring to the closing table and what amount of money the seller will receive after all closing costs are paid. Most title companies allow for either a cashier's check (made out to the title company) or wiring of the funds. The buyer typically takes possession of the property when the transaction "funds", which is when the lender has reviewed all the signed documents and given final approval and issued a funding number. This sometimes can take a couple of hours. For this reason, closing in the morning helps to ensure funding the same day. Only after funding occurs does the buyer receive the keys and is entitled to move into the property. Because there are often unforeseen delays in closing and funding, it is not recommended that movers be scheduled until the following day or after. Under no circumstances may the buyer move into the property before funding unless a temporary lease agreement has been signed. A buyer may not begin any remodeling or alteration of the property until funding has occurred.

Other information that you should know:

You might be asked to sign a Buyer Representation Agreement by your REALTOR. This simply goes over the scope of your REALTOR's representation of you and makes it clear that the REALTOR does not represent the interests of the seller. In order to provide you with advice and the professional representation you want and need, you should have a buyer's agent that represents you and your interests. It's a good idea to have a signed buyer's representation agreement, but it's not required.

The listing agent represents the seller's best interest and the buyer's agent represents the buyer's best interests. It is important to not communicate directly with the listing agent or the seller so that no confidential information is accidentally disclosed or any negotiating leverage is compromised. Communicate through your REALTOR.

REALTORS are required to make properties available without regard to race, color, religion, national origin, sex, disability or familial status.

Builders will have their own contracts. The builder sales representatives represent the builder, not you as the buyer. It is a good idea to use a buyer's representative even when purchasing a new home. We've helped buyer's identify problems with their new homes prior to closing that a builder representative would never have helped with! New home builders often offer incentives, which are typically tied to you using their preferred lender and title company. There are no option periods when contracting with a builder. Most builders require at least 50% of the cost of any upgrade choices, at the time the upgrades are requested.

We are often asked for referrals of lenders, inspectors, movers, etc. We're happy to give recommendations when possible, but please note that the final decision on who to use is yours. Resident Realty and Resident Realty agents are not responsible for the actions of those individuals or companies you decide to use. However, we would like to know if you have a bad experience with any vendor.

REALTORS are not attorneys and cannot give legal advice.

### **Austin Area Home Mortgage Professionals**

Tommy Hollahan, Branch Manager  
Thrive Mortgage | Branch NMLS #285997  
Mortgage Banker | NMLS #212398  
1107 S. 8th Street, Ste D | Austin, TX 78704  
CELL: 512-423-1710 | Office: 512-330-9555  
[tommy@MortgageATX.com](mailto:tommy@MortgageATX.com)  
[www.MortgageATX.com](http://www.MortgageATX.com)

Matthew Schepper | Mortgage Loan Officer  
TRB Mortgage  
c (512) 529-7787  
NMLS ID# 177669  
[mschepper@texasregionalbank.com](mailto:mschepper@texasregionalbank.com)

Frank Capparelli  
Willow Bend Mortgage  
Residential Mortgage Loan Originator  
NMLS# 249636  
13809 Research Blvd., #802  
Austin, TX 78750  
Cell (512) 497-5777  
Office (512) 524-2177  
[fcapparelli@wbm.com](mailto:fcapparelli@wbm.com)  
Max Leaman  
Branch Manager/Sr. Loan Officer - The Leaman Team  
PrimeLending, A PlainsCapital Company  
7719 Wood Hollow Dr. #155  
Austin, TX 78731  
Office: (512) 774-5850  
Cell: (512) 293-1239  
NMLS #: 151263  
MaxL@PrimeLending.com

Trent Jackson  
Senior Loan Officer  
NMLS #219958  
Mission Mortgage, Inc.  
901 South Mopac Expwy Bldg V Ste 120  
Austin, Texas 78746  
O: (512) 328-0400  
C: (512) 663-6865

Stuart Napier  
Senior Home Mortgage Consultant (Safe), Leaders Club Member  
NMLSR ID 413481  
Wells Fargo Home Mortgage | 10400 Research | Austin, TX 78759  
Tel (512) 794-4044  
[Stuart.Napier@wellsfargo.com](mailto:Stuart.Napier@wellsfargo.com)

## **Austin Area Property Insurance Professionals**

Robert Rainey, CLCS  
**Principal | Agent**  
**Oak Hill Insurance Group**  
*A Member of Service Insurance Group Inc.*  
512.827.7441 o  
[www.oakhilltx.com](http://www.oakhilltx.com)

## Austin Area Inspectors

You will want to have your new home inspected. You may use an inspector of your choice. If you have one, please let me know, along with their contact information, and I'll be happy to schedule the inspection for you. If you do not know an inspector, you may want to get a referral from a friend or family member.

While no inspector can find every little thing that is wrong with a house, and many do not note cosmetic only issues, you want to use an inspector who is very thorough. The inspection of your new home is not where you want to cut costs and use the least expensive!

Many inspectors also hold a pest control license and can perform an inspection for wood destroying insects (highly recommended) for a small additional fee. The same is true for sprinkler systems.

Most general inspectors do *not* also inspect pools and none that I know of inspect septic systems. For this reason, I've included a few referrals for pool inspectors and septic inspectors.

Some inspectors will get on the roof itself, while others do not or limit themselves to getting on only one story and/or low pitched roofs; all inspectors, at a minimum, inspect the roof from the ground. Very few, if any inspectors, will get on a wet roof. We highly recommend that you have a roofing company inspect the roof, whether the inspector you use gets on the roof or not. Please note that many roofing companies, including the ones referred below, will inspect the roof for free! Of course, should it need repair or replacement, they would appreciate the opportunity to do the work.

If the property you are inspecting has specialty items that need to be inspected (such as a pool, foundation, well or septic system), and you have a preferred inspector for any of these, please let me know and I'll schedule them as well. Of course there will be an additional fee for any of these inspections.

Once you've decided on which inspector, or inspectors, to use, please let me know as soon as possible so that I can schedule the inspection well before the end of the option period.

The below professionals are a few that I or my co-workers have referred or worked with in the past and ones that we know to be thorough.

### **General Inspectors**

Steve Dudley  
Dudley's Home Inspections  
512-294-1275

Randal Pitts  
BPG Inspections  
800-285-3001

Kyle Nunnallee  
Nunnallee Inspections  
512-415-5474

Scott Leppin  
[sleppin@sbcglobal.net](mailto:sleppin@sbcglobal.net)  
512-658-7989

You may also find all licensed area inspectors at the Texas Real Estate Commission's web page:

[www.trec.texas.gov](http://www.trec.texas.gov) Look under the "public" drop down at the top of the page and choose "license holder search" and then choose the type as "inspector" and Austin for the area.

### **Pool Inspectors**

Rick Beaubouef  
[rick@easypoolservice.com](mailto:rick@easypoolservice.com)  
Office 512-266-6592

Mobile 512-466-9672  
O'Neill's Pools  
Neil Engelmann  
512-264-5322  
[OneillsPools@gmail.com](mailto:OneillsPools@gmail.com)

### **Septic Inspectors**

Rainbow Septic  
Jan Witt  
*Hays County Qualified Inspector*  
*NAWT Certified*  
*TCEQ Licensed Installer*  
Office 512-380-9024  
[info@rainbowseptic.com](mailto:info@rainbowseptic.com)

Janet Dunkelberg, R.S.  
Necessary, Inc.  
[janet@necessaryinc.com](mailto:janet@necessaryinc.com)  
Office 512-445-2250  
Cell 512-413-9534

### **Roofing Companies**

Austin Pro Siding - Windows - Roofing  
Eric Meador  
512-940-0372  
[eric@austinprosiding.com](mailto:eric@austinprosiding.com)

Wilson Roofing  
John Andrews  
Wilson Roofing Company  
512-263-3157

jandrews@wilsonroofing.com

Chase Garner  
CCR Roofing, LLC  
512-696-4992  
[chase@ccr-roofing.com](mailto:chase@ccr-roofing.com)

**Structural Engineer**

Coby Osborne  
Osborne Engineering  
512-964-6117