

The Home Buying Process
By
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Here are some helpful hints to assist you in the home buying process. Johnson Realty's agents are experts at helping buyers secure the home of their dreams on the very best terms. Here is a layman's guide to purchasing a home.

Who Pays Your Johnson Realty Agent?

It depends. If you are the buyer, 99.99% of the time the seller will indirectly pay your Johnson Realty Agent®. In most cases, the seller's agent and your Johnson Realty Agent® will split the commission. I have never been involved in or heard of a case first-hand where the buyer has ever paid their Johnson Realty Agent® directly. However, it is important to establish Johnson Realty as your Buyer's agent by signing a Buyer's Employment Agreement. This establishes Johnson Realty as your exclusive agent and allows Johnson Realty to negotiate on your behalf. Without this agreement, Johnson Realty is a transaction broker and by Missouri law, can not negotiate on your behalf. See your state mandated Missouri Broker's Disclosure for more information.

Finding a Mortgage Broker:

There are several hundred loan products out there. Some don't require any money down and some do. How are you going to find out about the best program for you? Ask a qualified mortgage broker. Make sure they present you with several options. Pick the one that is best for you and your current and future financial situation. Ask your friends, family and last but not least ask your Johnson Realty Agent® for a referral. Your Johnson Realty Agent® does many transactions throughout the year. Ask them who their clients have been satisfied with and last but not least, interview the mortgage broker yourself.

It is my recommendation NOT to go to an online mortgage warehouse. Shopping your loan around will lower your FICO score (an acronym for Fair, Isaac and Company, the founders of the credit program, but which normally means your averaged middle credit score). These warehouses have every considering broker pull your credit. Too many inquiries, (more than one in a three month period) will LOWER your score. It is possible to have 17 brokerages competing for your loan at once. That is 17 inquiries in a one-day period.

I am using this example because it happened to one of my clients. We found his dream home and his middle score was right on the cusp of qualification. Against my advice, he shopped his loan around online and in one day, his score was lowered 30 points. He was unable to secure his loan and we lost whole transaction. You may still be able to secure the transaction, but may end up paying a higher rate due to your lower score, costing you thousands of dollars over the life of the loan. Saving a couple hundred dollars is not worth the risk. This doesn't mean that you shouldn't shop around for a favorable overall rate, but be very careful whom you allow to pull your credit.

Your mortgage broker, based on your financial situation will tell you how much home you can afford. This information is mainly based on your front-end and back-end ratios. Your front end ratio is your PITI (principal payment, interest, taxes and insurance) while your back end ratio includes PITI and all other revolving debt (credit cards, car loan, student loans, etc.) in relation to your PRE-TAX monthly income. Different loan programs have different ratios, but in most cases, lenders want a collective 29 front and 41 back-end ratio.

Again, this is just intended to be an overview. There are so many programs it would be impossible to cover them all. Each loan and loan applicant are unique.

Protecting Your Credit

Credit is a must in today's society. Most Americans have less than perfect credit. This does not mean you can't purchase a home. It can mean you will pay higher interest rates and points, but homeownership is a quick way to repair and establish good credit.

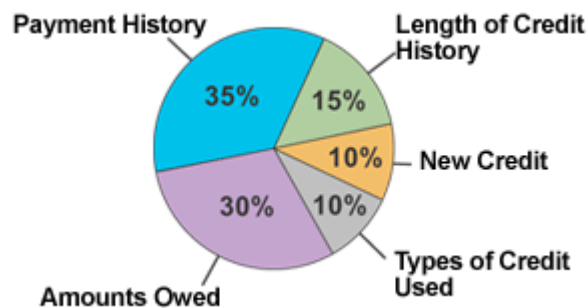
Understanding how credit works is crucial. Below is an overview that will help you understand, building, losing, maintaining and repairing all types of credit.

What is credit?

Credit is a record of your financial past combined with your reliability to pay past debts and the amount of debt you carry. Based on your criteria, each report is assigned a credit score from three different credit reporting agencies: Equifax, TransUnion and Experian. These three bureaus use slightly different methods to calculate your score, but for the most part, they use a model or a model similar to a program called FICO. (FICO is an acronym for Fair Isaac and Company, the founders of the risk management program.) Your scores from the three agencies are averaged to come up with what is commonly called your middle FICO score.

***Below is information obtained from www.myfico.com

FICO Scores are calculated from a lot of different credit data in your credit report. This data can be grouped into five categories as outlined below. The percentages in the chart reflect how important each of the categories is in determining your score.



These percentages are based on the importance of the five categories for the general population. For particular groups - for example, people who have not been using credit long - the importance of these categories may be somewhat different.

Payment History:

- Account payment information on specific types of accounts (credit cards, retail accounts, installment loans, finance company accounts, mortgage, etc.)
- Presence of adverse public records (bankruptcy, judgments, suits, liens, wage attachments, etc.), collection items, and/or delinquency (past due items)
- Severity of delinquency (how long past due)
- Amount past due on delinquent accounts or collection items
- Time since (recency of) past due items (delinquency), adverse public records (if any), or collection items (if any)
- Number of past due items on file
- Number of accounts paid as agreed

Amounts Owed:

- Amount owing on accounts
- Amount owing on specific types of accounts
- Lack of a specific type of balance, in some cases
- Number of accounts with balances
- Proportion of credit lines used (proportion of balances to total credit limits on certain types of revolving accounts)
- Proportion of installment loan amounts still owing (proportion of balance to original loan amount on certain types of installment loans)

Length of Credit History:

- Time since accounts opened
- Time since accounts opened, by specific type of account
- Time since account activity

New Credit:

- Number of recently opened accounts, and proportion of accounts that are recently opened, by type of account
- Number of recent credit inquiries
- Time since recent account opening(s), by type of account
- Time since credit inquiry(s)

- Re-establishment of positive credit history following past payment problems

Types of Credit Used:

- Number of (presence, prevalence, and recent information on) various types of accounts (credit cards, retail accounts, installment loans, mortgage, consumer finance accounts, etc.)

Please note:

- A score takes into consideration all these categories of information, not just one or two.
No one piece of information or factor alone will determine your score.
- The importance of any factor depends on the overall information in your credit report.
For some people, a given factor may be more important than for someone else with a different credit history. In addition, as the information in your credit report changes, so does the importance of any factor in determining your score. Thus, it's impossible to say exactly how important any single factor is in determining your score - even the levels of importance shown here are for the general population, and will be different for different credit profiles. What's important is the mix of information, which varies from person to person, and for any one person over time.
- Your FICO score only looks at information in your credit report. However, lenders look at many things when making a credit decision including your income, how long you have worked at your present job and the kind of credit you are requesting.
- Your score considers both positive and negative information in your credit report.
Late payments will lower your score, but establishing or re-establishing a good track record of making payments on time will raise your score.

End of www.myfico.com copy.

What does all this mean?

The actual process of credit can be confusing, but the general idea is to be financially responsible. If you pay all of your bills on time, have two credit cards at the maximum, do not max out credit cards, not let anyone pull your credit unless it absolutely necessary, and check your credit report regularly to make sure there are no mistakes or erroneous reporting every three to six months, you should maintain a healthy credit score.

One last tip for a good credit score is if you know you are going to be late for any type of payment, let the credit issuing company know. Most companies will not charge you late fees or report you late if you make prior arrangement for a late or missed payment BEFORE the due date. They will not however, issue a reprieve frequently. Do not take advantage of their good will towards you.

Protect Your Rights!

Know the law. View the entire Fair Credit Reporting Act at: <http://www.ftc.gov/os/statutes/fcra.htm> .

View your credit.

Pull your credit. Know what your credit issuing companies are reporting. To obtain a copy of your credit report call:

Equifax: 1-800-685-1111 www.equifax.com

TransUnion: 1-800-888-4213 www.transunion.com

Experian: 1-888-397-3742 www.experian.com

**You will be able to get a free report from these companies once a calendar year. This report will not include your score.

If you have an unfavorable credit rating, contact me so I can personally and confidentially advise you how to repair it. It is never too late to start.

Don't over extend your ratios:

Just because you qualify for a house doesn't mean you can afford it. Are you willing to change your lifestyle? Buying too much house may not allow you to entertain yourself and others as much as you are accustomed. Make sure you tell your Johnson Realty Agent® and your mortgage broker what your lifestyle is. If you are willing to make entertainment sacrifices, you may be able to afford a pricier house. If you are not, be realistic! Don't risk a financial downward spiral by getting in over your head. Again, everyone's lifestyle and finances are different. Make sure you are real with yourself when it comes to what you will and won't give up.

Finding Your New Home:

Location. Location. Location. These are said to be the three rules of real estate. This is very true. Make sure you pick a location that fits your lifestyle best. How many bedrooms and bathrooms do you want? Garage? Choosing wisely can affect salability or the ease in obtaining roommates in the short-term or fully occupying renters in the future. Your Johnson Realty Agent® will assist you in the location decision making process based on your input.

Your Johnson Realty Agent® has access to a real estate database called the MLS (Multiple Listing Service). It is in this database in which 95% of the homes sold are listed. Johnson Realty Agents® enter your criteria and just like an Internet search engine, your choices are shown. Your Johnson Realty Agent® may also know of other listings which are not listed in the MLS but are for sale. Make sure you inform your Johnson Realty Agent® exactly what you want and you will most likely find a property that fits your needs, wants, desires and financial ability to buy.

Sexual Offenders:

With the advent of Megan's Law, the public can be aware of convicted sexual predators who are registered within your municipality. Please call the city or county your future home is located to find out who is registered near you and what their offense was. It will be your sole decision to decide if that home is right for you with your new information. Your Johnson Realty agent will not advise you on whether it is an acceptable risk or not.

Don't Fall in Love:

When I am counseling a client, I tell them to check their emotions at the door. They are buying a piece of real estate, not a puppy. Some people get so emotionally vested in a property they lose all reasoning and end up paying over market value for a house. Look at real estate as a means to an end. Your happiness will come from comfort in the fact you got the best deal possible. You will later regret paying \$1,000 over market for the cute stained glass window. In fact, when you go to sell the home, you will regret you paid ANYTHING over market value.

Don't pay attention to interior décor. Large publicly traded home builders used to hire me to find an interior design to appeal to a certain demographic. I increased their sales and prices sometimes over 25%. You'd be amazed what a colorful kitchen and a pretty bedspread will do to the price of a house. Look at structure, floor plan, and most of all, if the property fits your needs, wants, desires and financial ability to buy. There is a reason I am telling you this. Have you ever desire the model home in a new community over a previously lived in home? Interior marketing is the reason. This business is huge and very influential. Trust me. I made a good living off of it.

Making an Offer:

You've found the place you love. Now what? Make an offer. Your offer is a legal binding contract if accepted by the selling party. You can't just make an offer and see what happens. If they accept it, you've got yourself a new home and an equitable stake in the property. This means you lock yourself in at the agreed upon price. If the value rises on that property while you are in contract before closing, the additional financial interest in the property is yours and not the sellers. On the other hand, if they conditionally accept or reject your offer, you don't have a claim to the property.

You can not under any circumstances, unless you want to purchase multiple properties, have two live offers at the same time. Choose the property best suited for you. Ask your Johnson Realty Agent® to perform a competitive market analysis on the property and surrounding area and

make an offer as an informed consumer. Have a back-up property just in case.

A competitive market analysis (CMA) is a report of homes for sale with like amenities. It should include: the amount of competition movement in the area; homes that have sold to figure a realistic selling price; and real estate listings that have expired so you can see what people are NOT willing to pay for a piece of property similar to the one you are interested in. A CMA is only for homes sold at “arms-length transactions.” Meaning the properties were sold with only market conditions involved. For example, a home sold at a discount to a child from a parent is not considered an arms-length transaction and should not be used in consideration in a CMA. Some homes may be too unique to perform a CMA on, but in most cases, this will be the route you take.

Along with your signed offer, you are going to have to submit something called earnest money. Earnest money is usually a substantial amount of money to let the seller know you are serious. There is no set amount of earnest money. Earnest money amounts are influenced by the seller but determined by you with the advice of your Johnson Realty Agent®. You will submit the money via check to your Johnson Realty Agent® and she/ he will submit the check with the accepted contract to the selling agent. If for some reason you are not able to complete the transaction and can not get the seller to cancel your contract, your earnest money can be withheld as something called “liquidated damages.” Most of the time this does not happen and your earnest money will be applied to your down payment at closing.

Do You Need an Attorney?:

The contracts you are entering have legal consequences. However, 90% of real estate transactions are done without attorneys due to the fact most contracts used in a real estate transaction are Missouri Real Estate Commission Approved. Johnson Realty Agents® fill in the blank lines which pertain to your property and can add addendums as necessary.

If you have questions about their interpretation, get an attorney who specializes in real estate. Your Johnson Realty Agent® is prevented by ethics and law to interpret your contract and its implications. You don't

need an attorney to execute a real estate transaction, but if you have legal questions, please do so.

Contact Negotiation:

Negotiating a contract can be a stressful time, but it doesn't need to be. State a clear objective with boundaries you will not cross. Everything up to that point is fair game. Make sure you discuss different scenarios with your Johnson Realty Agent® such as alternate financing, points, special conditions and any other unique situations which may present themselves.

Don't forget to meet in the middle. Looking at negotiation as a need to win situation can cost you the deal. Be reasonable and try your best to meet in the middle. Also, remember every time you counter offer, either party has the ability to cancel the contract. If another offer comes in which is superior, you can almost count on your offer being rejected. Remember what your big picture objective is and stick to it.

The Closing Process:

Insurance, Inspections, Appraisals and Surveys:

You are going to need all of the above. Not want, but need. If you are financing, you will be required to get all of these aside from a survey in some cases. Even if you are buying cash, you under no circumstances should skip ANY of these.

Insurance:

Title:

Title insurance insures your property against legal claims of ownership from other parties. All property in the United States have has at least one previous owner. During the issuing process, your title company will perform a title search. During their search, they will look for "clouds" or legal claims to your property, which may interfere with you owning your home free and clear. If a claim arises after you have secured insurance, title insurance will make sure you don't lose your property without any compensation or protect you in event of a lawsuit. In the State of Missouri, title insurance is, for the most part, provided by the seller.

Hazard:

Hazard insurance for your home is the same as having insurance on your car. It can protect you, your home and its belongings from damage and protect you up to a certain amount of liability. Your lender will require it and even if you own your home outright, you should have it.

Some things to remember are most home hazard insurance policies do not cover naturally occurring floods. Make sure you talk to your insurance agency about covering you for floods even if you are not in a flood plain. Homeowner's insurance, also does not cover large ticket items. Most have a cap per item. If you are a victim of a home invasion or loss, you will not be covered for the full amount of your diamond ring, as an example, unless you have a rider, or more assigned coverage to a specific item.

Inspections:

Whether you are buying a new or previously owned home, you need a home inspection from a certified home inspector. Go about finding your inspector the same way you would find a mortgage broker.

Home inspections usually take two to three hours, during which time the house is examined. The inspection includes observation and operation of the plumbing, heating, air conditioning, electrical, and appliances, as well as structural components: roof, foundation, basement, exterior and interior walls, chimney, doors, and windows. If there are unsatisfactory reviews of the home from your certified inspector, this may be grounds for contract renegotiation and/ or contract cancellation.

Appraisals:

An appraisal is a professional valuation of your property. If you are obtaining financing, you will hire and pay an appraiser to find the value of your property. However, even though you are paying the appraiser, they work for your lender and not you. You will own the report, but not the service. Again, even if you are paying cash, make SURE you protect your investment and make sure you know how much the property is really worth. The CMA your Johnson Realty Agent® gives you is NOT an appraisal unless she/ he is a licensed appraiser.

Survey:

I stress a survey only when the buyer is not purchasing a condo in a multi-unit property. A survey is very simple. It tells you where your property begins and where it ends. Simple- yes, but property lines are a constant source of legal debate. You have to know where you can erect a fence, where you can and can not build, or what easements utility companies or the City have claims. An inexpensive survey can save you thousands of dollars in time, money and headaches. It's an investment you can not skip over.

The Closing:

The closing is where all the papers are signed, filed and prepared for recording to public record. You will be signing a lot of papers. At the end of the proceeding, you will own your property and take possession.

At the closing you will get a detailed report called a settlement statement which will tell you exactly where all of your money is being allocated. Once the statement is deemed true and correct and appropriately signed off on, you will end up with a number which you must pay to the closing company in certified funds. This means no personal checks or other promissory notes can be accepted.

Summary:

You now are educated more than most of the general public about the home buying process. This isn't intended to be an absolute guide because all clients and properties are unique. It is very easy to become a homeowner and the financial, social and personal benefits are endless. Don't be afraid to contact a Johnson Realty Agent® and find out what your options are. For any real estate advice or guidance, please contact:

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