

FIRST TIME

Home Buyer's Guide



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Going For It

GET IN ON THIS SWEET SLICE OF EQUITY

Buying a home continues to be one of the fastest ways to build equity in the American Economy. Between 2017 and 2019, the average home price in Whatcom County increased by nearly \$100,000 *enter shocked face emoji here*.

Millenials make up a huge percentage of home buyers in today's market. Studies show that millenials are eager to become home owners and are better equipped to purchase their first home than the previous generation.

And you know what? It is probably more possible than you think. Often times, your monthly payment will be LESS than what you were previously paying in rent. Additionally, there are many mortgage options out there that do not require you to put 20% down - and your Lender and Realtor work together to find you a place that fits you & your budget perfectly.



My hope is that this guide helps you to gain a little more understanding of the home buying process, and help those who feel unsure about home ownership gain more confidence in GOING FOR IT.

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The Home Buying

ROAD MAP

01

TALK TO YOUR REALTOR & DEFINE YOUR DREAM HOME

It is important that we talk in depth about what you are looking for and the timing of when you hope to buy! I will always have my eye out for homes that might fit your needs.

02

FIND A LENDER & GET PRE-APPROVED

This is a necessary step before viewing homes in order to know what you can afford & when you should buy. Ask me about suggested Lenders!

03

FIND THE PERFECT HOME

I suggest touring a wide variety of homes in your price range. This is the best way to figure out what you are truly looking for. Filling out the Home Evaluation Sheet after each showing is a great way to keep track of what you like & don't like. Sometimes you don't know until you see it!

04

MAKE THE RIGHT OFFER

After you decide on a house that you love, we will work together to create an offer for the home. The seller may choose to negotiate the offer, and we will work together until all parties come to a full agreement.

05

GET A HOME INSPECTION

A home inspection is an important piece to understanding the condition that your new home is in. This occurs within 10 days of when your offer is accepted. Once the Home Inspection is complete, we will submit your requests for repairs or cash credit to the Seller.

06

COMPLETE YOUR FINANCING

In the weeks between offer acceptance and the closing date, you will be working with your Lender to get all of the necessary documents in and finalize numbers. The sale cannot close until your lender has everything completely approved and finalized.

07

MAKE THE FINAL WALK THROUGH

Within 5 days prior to closing, we will do a final walk through of your new home to make sure that all requested repairs were completed and that the home is clean.

08

CLOSE THE DEAL

After all of your documents are signed at the Title Company and the funds have been transferred from your lender, the Title Company sends the paperwork to the County Courthouse for final recording. Once it is recorded, I can hand over your keys and pour you a drink to celebrate!

Getting a Loan

HOW MUCH HOUSE CAN YOU AFFORD?

Before you start looking at homes, it's a good idea to find a target price range that you can afford. A mortgage lender will want to make sure you can handle the down payment plus a monthly mortgage payment made up of principal, interest, taxes and insurance (PITI).



In order to plan properly, you need to understand what lenders are looking for from a borrower. There are three main factors that help determine if you qualify for home financing: Income, Assets, and Credit History.

In order to get preapproved for a loan, these are the common documents that your Lender will likely request:

- **Most recent pay stubs covering 30 days**
- **Last two years W-2 forms**
- **If self-employed, Federal tax forms for previous year**
- **All account statements (for most recent two months) that you are using for funds to close and for reserve accounts**

THE STEPS:

1. Contact a Lender. I can give you my suggested Lenders!
2. Send in your required documents
3. Your Lender will identify your max budget (typically this number is higher than what you actually want to spend)
4. Your Lender will write a pre-approval letter once we find a house that you want to write an offer on
5. Once your offer is accepted, the Lender will do a "deep dive" into your income, assets, etc.
6. Your Lender will order the appraisal to verify that the purchase price is at or below the appraised value
7. You and your Lender will work together to finalize your interest rate and cash to close numbers
8. The Lender will send you a Closing Disclosure a few days prior to closing, which details all of the terms and final numbers
9. Your Lender will wire the funds to the Title Company on Closing Day!

Getting a Loan

MYTH:
Conventional loans require a
20% Down Payment

THE 5 TYPES OF LOANS FOR FIRST TIME HOME BUYERS

Fixed Rate Loan

The most common type of loan, a fixed-rate loan is a conventional loan that prescribes a single interest rate—and monthly payment—for the life of the loan, which is typically 15 or 30 years. Conventional loans are commonly associated with a 20% down payment, but they are becoming more common for smaller down payments if credit and income is strong! However, a down payment that is less than 20% requires the purchase of Mortgage Insurance.

RIGHT FOR: Homeowners who crave predictability and aren't going anywhere soon may be best suited for this conventional loan. For your mortgage payment, you pay X amount for Y years—and that's the end for a conventional loan. A fixed-rate loan will require a down payment. The rise and fall of interest rates won't change the terms of your home loan, so you'll always know what to expect with your monthly payment.

Adjustable-Rate Loan

Unlike fixed-rate Loan, adjustable-rate mortgages (ARM) offer mortgage interest rates typically lower than you'd get with a fixed-rate mortgage for a period of time—such as five or 10 years, rather than the life of a loan. But after that, your interest rates (and monthly payments) will adjust, typically once a year, roughly corresponding to current interest rates. So if interest rates shoot up, so do your monthly payments; if they plummet, you'll pay less on mortgage payments.

RIGHT FOR: Home buyers with lower credit scores are best suited for an adjustable-rate mortgage. Since people with poor credit typically won't qualify for good rates on fixed-rate loans, an adjustable-rate mortgage can nudge those interest rates down enough to put home ownership within reach.

FHA Loan

With a Federal Housing Administration, or FHA loan, you can put down as little as 3.5%. This is because Federal Housing Administration loans are government-backed. With this loan, interest rates are often higher

RIGHT FOR: Home buyers with less savings for a down payment are a good fit for an FHA loan. The FHA has several requirements for mortgage loans. First, most loan amounts are limited and don't provide much flexibility. FHA loans are fixed-rate mortgages, with either 15- or 30-year terms. Buyers of FHA-approved loans are also required to pay mortgage insurance—either upfront or over the life of the loan—which hovers at around 1% of the cost of your loan amount.

VA Loan

If you've served in the US Military, a Veterans Affairs or VA loan can be an excellent alternative to a conventional loan. If you qualify for a VA loan, you can purchase a home with no down payment and no mortgage insurance requirements.

RIGHT FOR: Veterans who've served 90 days consecutively during wartime, 180 during peacetime, or six years in the reserves. Because the home loans are government-backed, the VA has strict requirements on the type of home buyers can purchase with a VA loan: It must be your primary residence, and it must meet "minimum property requirements" (that is, no fixer-uppers allowed).

USDA Loan

Another government-sponsored home loan is the USDA Rural Development loan, which is designed for families in rural areas. The government finances 100% of the home price for USDA-eligible homes—in other words, no down payment necessary—and offers discounted mortgage interest rates to boot.

RIGHT FOR: Home Buyers in rural areas who are struggling financially can access USDA-eligible home loans. These home loans are designed to put homeownership within their grasp, with affordable mortgage payments. The catch? Your debt load cannot exceed your income by more than 41%, and you will be required to purchase mortgage insurance.

Finding the Perfect Home

(I LOVE THIS PART)

Once you've narrowed down your budget, I'm a big believer in looking at a multitude of homes in different areas and of different styles. This helps to narrow down what you are looking for in a home - sometimes it is not at all what you started out looking for!

- Make a list of everything you want in a home. Is a large kitchen important? How many bathrooms? What about closet space? Do you need a yard for the kids and pets to play in? Do you prefer a rambler or a multiple-story house? Are schools or access to public transportation important?

FEATURES	PROPERTY 1	PROPERTY 2	PROPERTY 3	PROPERTY 4	PROPERTY 5
Address					
Price					
Living Room					
Dining Room					
Family Room					
Kitchen					
Bedrooms					
Baths					
Floor Plan					
Yard					
Garage					
Features					
Lot					
Location					
Does it meet your needs?					
ADDITIONAL COMMENTS					

- Separate your essential needs from the items you could do without and put them on the “A” list. Prioritize the rest of the items into a second and third list in order of importance. We’ll then go over the lists so that I have clear understanding of what you want & need in your home.
- After a while, it becomes difficult to remember which features belong to which home. I will provide you with a form and rating system to help you compare homes.
- When selecting a home, look beyond cosmetics. Make sure the home is in good physical condition and that you understand the scope of repairs that may be necessary.
- Look at multiple homes even if you love the first one you see. Many times, it takes looking at several homes before you find the one that is really right for you.

- As your agent, I’ll check with you regularly and send you homes that fit your criteria. Keeping in contact allows us to establish a good rapport and helps me learn how to help you effectively. I’ll continue to be on the lookout for homes that suit your needs.

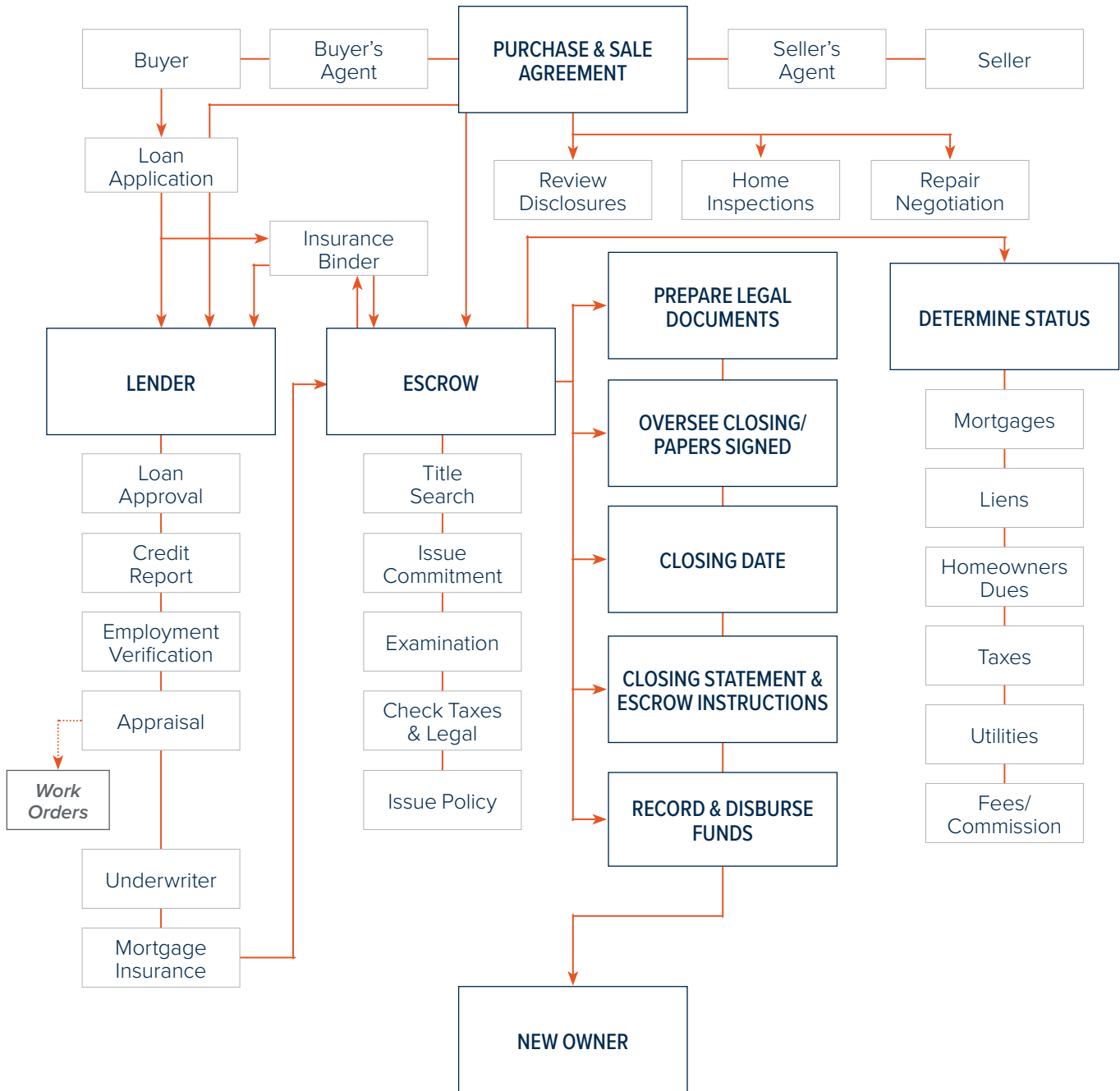
The Purchase & Sale Agreement



Once you've found the home you want to buy, together we'll complete a purchase and sale agreement, often referred to as the Offer Packet. This is the contract in which you and the seller outline the details of the property transfer. We submit the documents to the Seller's Agent and they will review the terms with the Seller, then accept or counter accordingly. The purchase and sale agreement usually consists of the following pages:

- 1. Form 21: The Purchase & Sale Agreement**
- 2. Financing Addendum**
- 3. Inspection Addendum**
- 4. Conditions/Disclosure Addendum**
- 5. Contingency Addendum (when appropriate)**
- 6. Additional Addenda for special conditions**
- 7. Lead-Based Paint Notification (for homes built before 1978)**
- 8. Agency Disclosure Form**
- 9. Property Disclosure form completed by the property seller**
- 10. Local area disclosures**

What Happens Between an Accepted Offer & Closing?



Typically, the Closing Date is 30-45 days following the day of mutual acceptance. This allows time for necessary inspections, ordering of Title documentation, and for your Lender to have final approval. Once we are mutually accepted, I will send you a customized Contract Timeline which outlines all of the important dates in your transaction.

What Happens at Closing?

During the negotiation stage of the transaction, a mutually agreed-upon date for closing is determined. "Closing" is when you and the seller sign all the paperwork, pay your share of the settlement fees, and the documents are recorded. Settlement obligations vary widely due to specific contract language, local laws and customs. Prior to closing, the closing agent (usually an escrow or title company) will complete a detailed settlement statement for both buyer and seller. As your agent, I can help you understand which of the following typical settlement fees apply to you (more on this in the Closing Costs section). Some general expectations:

- **A couple of days before Closing, you will go to the Title Company to sign the Lender and Title Paperwork**
- **Make sure you called all utility companies to setup service starting on the Closing Day**
- **On Closing Day, the Title Company will call your agent to let you know when the Sale is recorded with the county. Once the sale is recorded, the house is all yours!**
- **Your agent will deliver the keys to you (with your closing gift!)**
- **Time to move in!**



The Costs of the Buying Process: THINGS TO PLAN FOR

There are several costs associated with buying a home besides the down payment. None of the costs or fees are hidden but can often be overlooked. As a Realtor, I always want to make sure my clients understand these costs. Lenders are a great resource for explaining these costs as well.

Earnest Money Deposit

An earnest money deposit is needed when making an offer or having a purchase offer accepted. The purpose of this deposit is to show that the buyer is serious about purchasing the seller's home and is typically at least **1% of the purchase price**. This deposit is normally held by the Title Company in an escrow account until closing. The amount a buyer deposits is subtracted from the total cost they will need at closing.

Down Payment

You & your Lender will work together to decide how much money you want to put down on your home before we make an offer. This typically ranges from 3-20% of the purchase price for first time home buyers. This amount greatly effects your monthly payment. Putting less than 20% down means that you also have to pay Private Mortgage Insurance as part of your monthly mortgage payment. You can also choose to "buy down" your Mortgage Insurance upfront at closing.



FACT: The Seller pays the Real Estate Commission for both the Buyer's Agent & the Seller's Agent, so there is no out of pocket expense for Buyers to use an Agent!

Closing Costs



HOW MUCH ARE CLOSING COSTS?

Buyer's closing costs usually amount to 2% to 4% of the total purchase price, all things considered. So, if you are purchasing a \$400,000 house, this means your closing costs could be between \$8,000 and \$16,000.

These closing costs are due at the end of escrow when your loan closes, so it is important to be aware of them so they don't take you by surprise. Your Lender should provide you with your "Cash to Close" amount early in the process. Additionally, all of these costs will be outlined in the Settlement Statement that you will review with your closing documents.

WHAT'S INCLUDED IN CLOSING COSTS?

Home Inspection: The home inspection, separate from the appraisal, is usually between \$300 and \$550. This is not technically included in your closing costs, because it is paid in-person to the inspector, but it is a necessary expense!

Appraisal: An appraisal, usually between \$500 and \$700, is a mandatory part of the escrow process. It is required by your lender to make sure your home is actually worth the price that you are paying.

Escrow Fees: The escrow fees can include items such as paying your insurance up front or contributing portions of your yearly property taxes ahead of time. These things will go into your escrow account, but count as closing costs.

Title Fees: Title fees are the costs accrued in transferring the house's title from the seller's name to your name. They are generally pretty minimal.

Private Mortgage Insurance (PMI): If your down payment is less than 20%, you are typically required to pay PMI as well as your loan payment. You can often opt to pay this as a one-time fee at closing rather than with your mortgage payment every month.

Closing Costs Continued



Lender Fees: These fees will vary depending on who is processing your loan, so it is wise to ask about lender fees up front, and they should be able to provide you with a full list of their fees early in the purchasing process.

Loan Interest: There will be a small gap of time between the closing date and the first day your loan payment is due. You will often need to make a small payment of pro-rated loan interest to cover for this period of time.

Loan Discount Points: Buying a loan discount point is one of the best ways to decrease your overall interest amount for your loan. By paying this one time fee at the time of closing, your lender will agree to give you a lower interest rate throughout the course of your loan. This can save you a great deal of money in the long term.

Prepaid / Prorated Items

Real Estate Taxes: Most mortgage products require a buyer to pay an entire year's worth of taxes at closing. There are situations and products that allow a buyer to pay taxes annually, bi-annually, or quarterly.

Homeowners' Insurance: Most lenders require a buyer to purchase homeowner's insurance prior to closing. This insurance protects the buyer against fire, natural disaster, and other scenarios.

Property Taxes: Depending on the time of year, the Seller may have paid for a few months of Property Taxes after the Closing Date. In these cases, the buyer will pay the Seller back for what they already paid.

Utilities: Sellers will have often already paid for electric, water, HOA fees, etc. for the entire month that the Closing Date is in. Thus, the buyer will pay for the prorated amounts from the closing date to the date that the Seller has paid.

What I Offer

Real Estate is my JAM



I've loved real estate for as long as I can remember. As a kid, I used to make my mom drive around to look for FOR SALE signs. I would gather as many flyers as I could and present them all to the neighbor kids to make them guess the prices.

I LOVE what I do - not only because I find the housing market fascinating - but because I am very proud to be helping clients and friends make a home purchase and watching their equity GROW. This is especially true for First Time Home Buyers. Once you are in the market, you are in the market for good and can continue to pursue homes that fit your needs throughout each stage of life.

As Your Agent...

- I know the local market and the best areas to find homes in your price range in Whatcom County.
- I can save you time by doing a lot of the legwork. By knowing your needs, I can eliminate homes that do not meet your criteria and find you homes that might surprise you!
- I will make appointments, preview homes with you and help you determine the pros and cons of each home.
- I will send you homes that match your criteria as soon as they hit the market (or sometimes before).
- Once you find the home you want to buy, I will be your ADVOCATE and guide you through the negotiation, legalities and details of purchasing a home.
- I will celebrate with you once we close and buy you dinner on your closing day!
- I will send you an annual update on your home's value to show you the EQUITY you have gained.

FAQ

FREQUENTLY ASKED QUESTIONS



How does my offer get presented to the seller?

In today's electronic world, offers are sent via email to the seller's agent. I will call the agent to let them know it's coming and tell them a little bit about you and the details of your offer. Then I will follow up with the agent again to confirm receipt of your offer.

Does it cost me money to make an offer?

When you write the offer on the home you've chosen and it gets accepted by the Seller, you will be expected to include an earnest money deposit. The deposit is a sign of your good faith that you are seriously interested in buying the home.

Where does my earnest money go?

Once the buyer and seller have a mutually accepted offer, the earnest money is deposited into a trust account. That deposit becomes a credit to the buyer and becomes part of the purchase expense.

Can I lose my earnest money?

Real estate contracts are complicated legal transactions. This is another area where having a knowledgeable and professional agent is a necessity. Rarely does the buyer lose the earnest money. Most often, if the transaction falls apart, there are circumstances beyond the buyer's control that cause it to happen. If the buyer willfully decides, however, that they no longer want to buy the house and has no legal reason for rescinding their offer, then the seller has the right to retain the earnest money.

What happens if I offer less than asking price?

If you offer less money, the seller has three options. They can accept the lower offer, counter your offer or reject it completely. Remember that there could be another buyer who is also interested in the home. If they happen to write an offer at the same time you do, there are usually many aspects of each offer to consider, but ultimately the seller will want to accept the best and most complete offer. In active real estate markets, homes often sell for their listed price. In hot markets, there may be many buyers vying for the same house, which sometimes drives the final sale price above the original listing price. As your realtor, I will help you plan your strategy, based on the current real estate market in our area.

What if the Home Appraisal comes in low?

If the appraised value is less than the purchase price, lenders use that value to determine your Loan to Value Ratio (LTV). Unless the seller agrees to lower the price, you will have to increase your down payment to get the same mortgage and interest rate, since bank's will not lend for more than what the home is appraised for.

What is a Point?

A point is equal to one percent of the loan principal. Some lenders charge points, in addition to interest and fees, at closing.

What is Title Insurance?

Title insurance protects against loss from any defects in the legal title, liens against the property or other adverse claims. The lender usually requires title insurance.

Glossary



ADJUSTABLE-RATE MORTGAGE (ARM)	interest rates on this type of mortgage are periodically adjusted up or down depending on a specified financial index
AMORTIZATION	a method of equalizing the monthly mortgage payments over the life of the loan, even though the proportion of principal to interest changes over time. In the early part of the loan, the principal repayment is very low, while the interest payment is very high. At the end of the loan, the relationship is reversed
ANNUAL PERCENTAGE RATE	the actual finance charge for a loan, including points and fees, in addition to the stated interest rate
APPRAISAL	an expert opinion of the value or worth of a property
ASSESSED VALUE	the value placed on a property by a municipality for purposes of levying taxes. It may differ widely from appraised or market value
BALLOON PAYMENT	a large principal payment due all at once at the end of some loan terms
CAP	a limit on how much the interest rate can change in an adjustable-rate mortgage
CERTIFICATE OF TITLE	a document, signed by a title examiner, stating that a seller has an insurable title to the property
CLOSING	the deed to a property is legally transferred from seller to buyer, and documents are recorded
CLOSING COSTS	see “settlement” or refer to “Settlement and Closing” in this guide
COMMISSION	a fee (usually a percentage of the total transaction) paid to an agent or broker for services performed
COMPARATIVE MARKET ANALYSIS (CMA)	a survey of the attributes and selling prices of comparable homes on the market or recently sold; used to help determine a correct pricing strategy for a seller’s property
CONTINGENCY	a condition in a contract that must be met for the contract to be binding
CONTRACT	a binding legal agreement between two or more parties that outlines the conditions for the exchange of value (for example: money exchanged for title to property)
DEED	a legal document that formally conveys ownership of a property from seller to buyer
DOWN PAYMENT	a percentage of the purchase price that the buyer must pay in cash and may not borrow from the lender
EQUITY	the value of the property actually owned by the homeowner: purchase price, plus appreciation, plus improvements, less mortgages and liens
ESCROW	a fund or account held by a third-party custodian until conditions of a contract are met
FIXED-RATE MORTGAGE	interest rates on this type of mortgage remain the same over the life of the loan. Compare to “adjustable-rate mortgage”



FIXTURE	a recognizable entity (such as a kitchen cabinet, drape or light fixture) that is permanently attached to a property and belongs to the property when it is sold
HAZARD INSURANCE	compensates for property damage from specified hazards such as fire and wind
INTEREST	the cost of borrowing money, usually expressed as a percentage rate
LIEN	a security claim on a property until a debt is satisfied
LISTING CONTRACT	an agreement whereby an owner engages a real estate company for a specified period of time to sell a property, for which, upon the sale, the agent receives a commission
MARKET PRICE	the actual price at which a property sold
MARKET VALUE	the price that is established by present economic conditions, location and general trends
MORTGAGE	security claim by a lender against a property until the debt is paid
MULTIPLE LISTING SERVICE (MLS)	a system that provides to its members detailed information about properties for sale
ORIGINATION FEE	an application fee(s) for processing a proposed mortgage loan
PITI	principal, interest, taxes and insurance, forming the basis for monthly mortgage payments
POINT	one percent of the loan principal. It's charged in addition to interest and fees
PREPAYMENT PENALTY	a fee paid by a borrower who pays off the loan before it is due
PRINCIPAL	one of the parties to a contract; or the amount of money borrowed, for which interest is charged
PRORATE	divide or assess proportionately
PURCHASE & SALE AGREEMENT	a contract between buyer and seller that outlines the details of the property transfer; or refer to "Purchase and Sale Agreement" in this guide
SETTLEMENT	all financial transactions required to make the contract final. See "Settlement and Closing" in this guide.
TITLE	a document that indicates ownership of a specific property
TITLE SEARCH	detailed examination of the entire document history of a property title to make sure there are no legal encumbrances

okay, let's do this!



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