HOME BUYER'S HANDBOOK

My focus is to make the process of buying a home as efficient and seamless as possible. I will support you in finding the right home with the best possible terms, and to assist you through the entire process.

I have prepared this package for you, to help explain the process of buying a home. This material will help to familiarize you with the various activities, documents and procedures that you will be experiencing while purchasing your home.

Dudum Real Estate Group and I have the resources, experience, and market knowledge to support you in achieving your dreams of home ownership, and I look forward to working with you.

Prepared by

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OUR PROFESSIONAL RELATIONSHIP

AN OVERVIEW OF WORKING TOGETHER

My Commitment To You – I am a full time professional real estate broker, educated in the legal aspects of real estate practice and licensed by the State of California to provide real estate services. I abide by a strict Code of Ethics to provide you with the highest level of service. Affiliated with Dudum Real Estate Group, I am part of a team of 137 experienced Realtors. I commit to serving you with integrity, respect and confidentiality.

Skilled Service – A large part of my work is performed "behind the scenes": previewing homes, researching comparable sales, gaining market knowledge, researching trends, evaluating changing legislation and maintaining my professional credentials. For every hour I spend showing you homes, I will spend numerous hours in preparation. I am constantly acquiring information that will help me to better serve you.

How I Am Compensated – I work entirely on commission, which I receive only if I initiate and complete a transaction. I am compensated only when all of your needs have been satisfied and you take ownership of your new home. The seller pays the full commission from the home sale proceeds. The listing broker shares the commission with the selling (Buyer's) broker. For a Buyer, representation by a Buyer's Agent is free!

SERVICES FOR BUYERS

- Educate you about current market conditions
- Obtain a Buyer’s Relocation Package for you
- Conduct a daily search for appropriate properties
- Schedule showings of selected properties
- Provide you with a list of reputable lenders
- Provide experienced counsel when writing an offer
- Provide you with a list of qualified and licensed inspectors
- Negotiate aggressively on your behalf
- Help you visualize cosmetic updating when needed
- Provide utilities phone list and change of address forms prior to close of escrow
- Furnish a DMV Driver’s Handbook and Voters Registration Card (for out-of-state residents)
- Be present at escrow signing appointment at the title company
- Provide a complete file on CD after the close of escrow
- Offer continued service beyond the sale

HOME BUYING PROCESS

WHAT TO EXPECT WHEN YOU ARE BUYING A HOME

Evaluate Your Needs – I will meet with you to discuss your specific needs in a home and analyze your resources. We will establish a set of criteria about the type of home and features that are most important to you.

Loan Consultation – I will provide you with guidance in finding a financial institution and support you in obtaining information on available financing options. A licensed loan consultant can help you determine a realistic range of affordability and can provide you with a letter of pre-approval.

Market Education, View Properties & Select a Property – I will research available properties and show you homes based on the criteria that we establish. As we view different homes, we will reassess your criteria. The more precise and direct you are with me, the more successful our search will be.

Structure an Effective Offer – Once you have found the home that you wish to purchase, I will do all the necessary research to help you structure an effective offer. We will write the purchase agreement and I will advise you on protective contingencies, customary practices, and local regulations.

Present Your Offer – I will present your offer to the seller and/or the seller's agent. The seller has three options – to accept, reject, or counter. My personal knowledge of your needs and qualifications will enable me to represent your offer in the best light.

Respond to the Seller – I will review the seller's response with you. If the seller has countered your offer, you will have the option to accept, reject, or counter. My negotiating skills will benefit you in reaching a satisfactory agreement.

THE HOME BUYING PROCESS (CONTINUED)

WHAT TO EXPECT WHEN YOU ARE BUYING A HOME

Open Your Escrow – When the purchase agreement is accepted and signed by all parties, I will open escrow for you and your initial deposit will be given to the title company. The title company is a neutral third party that will receive, hold, and distribute all funds associated with your transaction.

Remove Contingencies – Prior to closing, all of the contingencies of the Purchase Agreement must be met. I will coordinate the removal of these contingencies and review all documents with you. Typical contingencies include:

- Approval of the seller's transfer disclosure statement
- Approval of the preliminary title report
- Loan approval, including an appraisal of the property
- Physical inspections of the property

Close Escrow – When all of the conditions of the purchase agreement have been met, you will sign your loan documents and closing papers. You will deposit the balance of your down payment and closing costs to escrow, and your lender will deposit the balance of the purchase price. The deed will then be recorded at the County Recorder's office and you will take ownership of your new home.

THE LOAN PROCESS

A GENERAL GUIDE

As your real estate agent, I will help you select a mortgage lender. Once you have made your decision, these are the steps of the process:

Application Process – You will sit down with a lender or mortgage broker, who will ask you to complete a mortgage application and to provide copies of your income and asset verification. Various fees and the down payment will be discussed at this time and you will receive an estimate for the housing expenses and the closing costs.

Mortgage Preapproval – The mortgage lender will review your income, assets, and credit history to determine if you qualify for the proposed mortgage, and then issue a preapproval letter.

Escrow Process – Once your offer to purchase a home is accepted, the escrow process begins. The mortgage lender orders the appraisal, preliminary title report, and other supporting documentation. As it comes in, the documentation is checked for any irregularities, and any additional items needed are requested.

Loan Submission – Once all the necessary documentation is in, the loan processor puts the loan package together, your loan agent prepares a cover letter, and your completed file is submitted to a lender for approval.

Loan Approval (Underwriting) – Loan approval, or underwriting, generally takes anywhere from 24 to 72 hours, and it may take slightly longer if mortgage insurance is required. “Mortgage insurance underwriting” occurs when the borrower has less than 20 percent of the loan amount to put towards a down payment. All parties are notified of the approval and any loan conditions that must be received before the loan can close. You may then remove your financing contingency after these conditions are met.

Documents are Drawn – Within one to three days after loan approval, the lender prepares your loan documents (including the note and deed of trust), which are sent to the title or escrow company. The escrow officer will call you to set up an appointment when the papers are ready for your final signature. At that time, the escrow officer will tell you how much money you will need to bring in to close the escrow.

Closing – Once all parties have signed the loan documents, they are returned to the lender, and the package is reviewed. If all the forms have been properly executed, the lender sends the loan funds by wire transfer. This is the point at which you finish the loan process and actually buy the house.

Congratulations!

CHECKLIST FOR APPLICATION

The following information is typically needed for a loan application.

- ❑ Copy of the purchase contract and property information
- ❑ Mailing address and property description
- ❑ Contact information for access to the property

Personal Information

- ❑ Social security number
- ❑ Marital status
- ❑ Number and age of dependents
- ❑ Current address and telephone numbers
- ❑ Addresses for the past seven years (if more than one)
- ❑ Current housing expenses (rent, mortgage, insurance, taxes)
- ❑ Name and address of landlord/mortgage holder (past two years only)

Employment history and income

- ❑ Two years of employment history, with complete details of each position
- ❑ Recent pay stubs and two years of W-2 forms
- ❑ Tax returns and financial statements if self-employed
- ❑ Records of dividend and interest received
- ❑ Proof of other income

Assets

- ❑ Information about all bank and money market accounts
- ❑ Two months of bank statements
- ❑ Current values of stocks, bonds, mutual funds and other investments
- ❑ Vested interest in retirement funds
- ❑ Value of life insurance
- ❑ Information about any cars you own
- ❑ Information about any real estate you own
- ❑ Value of any significant property you own

Liabilities and debts

- ❑ Itemized list of all current debts: loan and credit cards and other bills
- ❑ Written explanation of any past credit problems
- ❑ Full details of bankruptcy during the last seven years, if possible

COMPONENTS OF A MORTGAGE PAYMENT

Your monthly mortgage payment is made up of several components. This housing expense is commonly referred to as “PITI” or principal, interest, taxes, and insurance. PMI (see below) and homeowner’s association dues may also make up a portion of your total payment.

Principal – The original balance of money loaned, excluding interest - also, the remaining balance of a loan, excluding interest. The interest is calculated on the principal.

Interest – The charge for the use (loan) of money.

Taxes – The county assessor charges property tax based on the value of your home. Two tax installments are due each year. The first installment is due November 1 and is delinquent on December 10. The second installment is due February 1 and is delinquent on April 10. Taxes may be impounded, depending on the amount of your down payment. Anything less than 20 percent requires an impound account. An impound account is a trust account set up by the lender to which a portion of the monthly payment is credited so that funds will be available for the payment of taxes and insurance.

Hazard Insurance – This contract pays for loss on a home from certain hazards, including fire. You obtain homeowner’s insurance from your own insurance agent. The standard policy pays replacement costs, minus depreciation based on actual cash value. Talk to your insurance agent about the different types of insurance available. Hazard insurance may be impounded. Obtaining home insurance can present a large obstacle in today’s market. It is important to start looking for insurance immediately upon acceptance of your offer.

PMI – (Private Mortgage Insurance) – Depending on the amount of your down payment, you may be required to have PMI. A down payment of less than 20 percent requires PMI. Because loans with small down payments involve substantially more risk for the lender, they need protection in case the loan goes into foreclosure. Because this insurance is available, lenders can offer loans with lower down payments.

PMI may require an up-front fee which is payable as a part of your closing costs and it is also required to be paid monthly with your payment.

FHA also charges a fee for mortgage insurance called MIP or Mortgage Insurance Premium. An upfront fee (which may be financed) and a monthly fee are assessed. VA charges a funding fee, which may also be financed.

THE INSPECTION PROCESS

While property inspections provide no guarantee, they will educate you as to the condition of a property. Inspections are usually requested on the Purchase Contract, and if inspection results are unsatisfactory, you have the option to withdraw your contract.

In addition to the professional inspections listed below, you should take a close look at the property yourself. For example, inspect cupboards, doors, windows, flooring, counter tops, bath and kitchen fixtures, built-in appliances, stairways and banisters.

Termite Report – The Pest Report will indicate any type of wood destroying organisms that may be present. This includes termites, fungus, dry rot, etc. The seller usually provides this report.

Physical Inspection – Usually done by a General Home Inspector, a Physical Inspection is a thorough inspection of the house. The inspection results in an overall assessment of the present condition of the property.

If conditions warrant, the Home Inspector may recommend additional inspections.

AN ESCROW IS A NEUTRAL THIRD PARTY

The escrow is a legal procedure for handling the details of the transaction from the time the purchase agreement is ratified until the title is transferred and the sale is completed. The escrow is managed by a title company.

The escrow officer, a neutral third party in the transaction, must complete specific instructions, received from the buyer's and seller's agents, before title is transferred and funds are disbursed. The buyer's and seller's instructions must match in order for the escrow to move forward.

The escrow is usually opened by the next business day after mutual acceptance of the purchase agreement and the buyer's earnest money is deposited into the escrow.

Preliminary Title Report – The title company searches the public records for pertinent information about the property. Who is the owner of record? What liens exist against the property? What easements affect the property? Are there any judgments that might have to be cleared before title can be transferred? Any such items must be resolved during the escrow period.

Title Insurance – The title insurance policy is protection for the buyer against forgeries, errors in public records and other specific items. A CLTA (California Land Title Association) title insurance policy is issued to protect the buyer and the ALTA (American Land Title Association) title insurance policy is issued to protect the lender.

TERMS YOU NEED TO KNOW

Adjustable Rate Mortgage (ARM): A mortgage with an interest rate that changes over time in line with movements in the index. ARMs are also referred to as AMLs (adjustable mortgage loans) or VRMs (variable rate mortgages).

Adjustable Period: The length of time between interest rate changes on an ARM. For example, a loan with an adjustment period of one year is called a one-year ARM, which means that the interest rate can change once a year.

Amortization: Repayment of a loan in equal installments of principal and interest, rather than interest-only payments.

Assumption of Mortgage: A buyer's agreement to assume the liability under an existing note that is secured by a mortgage or deed of trust. The lender must approve the buyer in order to release the original borrower (usually the seller) from liability.

Balloon Payment: A lump sum principal payment due at the end of some mortgages or other long-term loans.

Binder: Sometimes known as an offer to purchase or an earnest money request. A binder is the acknowledgement of a deposit along with a brief written agreement to enter into a contract for the sale of real estate.

Cap: The limit on how much an interest rate or monthly payment can change, either at each adjustment or over the life of the mortgage.

CC&Rs: Covenants, Conditions, and Restrictions. A document that controls the use, requirements and restrictions of a property.

Certificate of Reasonable Value (Covenants): A document that establishes the maximum value and loan amount for a VA guaranteed mortgage.

Closing Statement: The financial disclosure statement that accounts for all of the funds received and expected at the closing, including deposits for taxes, hazard insurance, and mortgage insurance.

Condominium: A form of real estate ownership where the owner receives title to a particular unit and has a proportionate interest in certain common areas. The unit itself is generally a separately owned space whose interior surfaces (wall, floors, and ceilings) serve as its boundaries.

Contingency: A condition that must be satisfied before a contract is binding. For instance, a sales agreement may be contingent upon the buyer obtaining financing.

Conversion Clause: A provision in some ARMs that enables you to change an ARM to a fixed-rate loan, usually after the first adjustment period. The new fixed rate is generally set at the prevailing interest rate for fixed-rate mortgages. This conversion feature may cost extra.

Cooperative: A form of multiple ownership in which a corporation or business trust entity holds title to a property and grants occupancy rights to shareholders by means of proprietary leases or similar arrangements.

Due-On-Sale Clause: An acceleration clause that requires full payment of a mortgage or deed of trust when the secured property changes ownership.

Earnest Money: The portion of the down payment delivered to the seller or escrow agent by the purchaser with a written offer as evidence of good faith.

Escrow: A procedure in which a third party acts as a stakeholder for both the buyer and the seller, carrying out both parties' instructions and assuming responsibility for handling all of the paperwork and distribution of funds.

FHA Loan: A loan insured by the Insuring Office of the Department of Housing and Urban Development; the Federal Housing Administration.

Federal National Mortgage Association (FNMA): Popularly known as Fannie Mae. A privately owned corporation created by Congress to support the secondary mortgage market. It purchases and sells residential mortgages insured by FHA or guaranteed by the VA, as well as conventional home mortgages.

Fee Simple: An estate in which the owner has unrestricted power to dispose of the property as he wishes, including leaving by will or inheritance. It is the greatest interest a person can have in real estate.
Finance Charge: The total cost a borrower must pay, directly or indirectly, to obtain credit according to Regulation 2.

Graduated Payment Mortgage: A residential mortgage with monthly payments that starts at a low level and increases at a predetermined rate.

Home Inspection Report: A qualified inspector's report on a property's overall condition. The report usually includes an evaluation of both the structure and mechanical systems.

Home Warranty Plan: Protection against failure of Mechanical systems within the property. Usually includes an evaluation of both the structure and mechanical systems.

Index: A measure of interest rate changes used to determine changes in an ARM's interest rate over the term of the loan.

Joint Tenancy: An equal undivided ownership of property by two or more persons. Upon the death of any owner, the survivors take the decedent's interest in the property.

Lien: A legal hold or claim on property as security for a specified amount on specified terms.

Loan Commitment: A written promise to make a loan for a specified amount on specified terms.

Margin: The number of percentage points the lender adds to the index rate to calculate the ARM interest rate at each adjustment.

Mortgage Life Insurance: A type of term life insurance often bought by mortgagors. The coverage decreases as the mortgage balance declines. IF the borrower dies while the policy is in force, the debt is automatically covered by insurance proceeds.

Negative Amortization: Negative amortization occurs when monthly payments fail to cover the interest cost. The interest that isn't covered is added to the unpaid principal balance, which means that even after several payments you could owe more than you did at the beginning of the loan. Negative amortization can occur when an ARM has a payment cap that results in monthly payments that aren't high enough to cover the interest.

Origination Fee: A fee or charge for work involved in evaluation, preparing, and submitting a proposed mortgage loan. The fee is limited to 1 percent for FHA and VA loans.

PITI: Principal, interest, taxes, and insurance.

Planned Unit Development (PUD): A zoning designation for property developed at the same or slightly greater overall density than conventional development, sometimes with improvements clustered between open, common areas. Uses may be residential, commercial or industrial.

Point: An amount equal to 1 percent of the principal amount of the investment or note. The lender assesses loan discount points at closing to increase the yield on the mortgage to a position competitive with other types of investments.

Prepayment Penalty: A fee charged to a mortgagor who pays a loan before it is due. Not allowed for FHA or VA loans.

Private Mortgage Insurance (PMI): Insurance written by a private company protecting the lender against loss if the borrower defaults on the mortgage.

Purchase Agreement: A written document in which the purchaser agrees to buy certain real estate and the seller agrees to sell under stated terms and conditions. Also called a sales contract, earnest money, or agreement for sale.

Regulation Z: The set of rules governing consumer lending issued by the Federal Reserve Board of Governors in accordance with the Consumer Protection Act.

Tenancy in Common: A type of joint ownership of property by two or more persons with no right of survivorship.

Title Insurance Policy: A policy that protects the purchaser, mortgagee or other party against losses.

VA Loan: A loan that is partially guaranteed by the Veterans Administration and made by a private lender.