

ERATE'S HOME BUYING GUIDE



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When You're Ready to Buy a Home, What's Next?

It happens to an increasing number of Americans every year – the struggle to save wisely, reduce monthly spending, and get caught up with those credit bills finally pays off. Home ownership is no longer just a far-off dream.

The feeling of expectancy and accomplishment is exciting and motivating. However, it's soon followed by another feeling – bewilderment. This dawning realization that you don't have all the answers (or even know how to get them) can be a daunting sensation.

Now that you've determined you're ready to make the leap into home ownership, the following steps should help you get the process started and give you some piece of mind along the way.

Step One – Get Pre-Approval for a Loan

Get pre-approved for a loan. It's typically a quick, automated process that shouldn't cost anything, except for a possible fee to run a credit check. And there's no obligation to buy, should you decide to postpone your purchase or not find the home of your dreams right away. Do not confuse the terms *pre-qualification* and *pre-approval*, since they do not carry the same weight. A pre-qualification is a simple process whereby a Loan Agent or Officer will review your income and debts to determine the loan amount for which you can qualify. A pre-approval, however, involves a review and actual verification of your income, debts and credit. It is a more complete evaluation of your qualifications and will involve an automated underwriting system if you have decent credit or an actual underwriter if your credit is sub-prime. A loan pre-approval has become a necessary prerequisite for any serious home buyer today.

If you want to put yourself in the best possible position when making an offer on a home, you must have a loan pre-approval ready to present to the seller along with your offer (that is unless your offer involves 100% cash). An initial loan pre-approval, independently obtained on your own, is good information for you to possess for your personal reference before beginning the search for a good real estate agent. The pre-approval allows you to begin the process of defining and framing your own goals and ideas on such topics as how much house you can afford, which neighborhoods you can reasonably tour in terms of affordability, and what kind of funds you'll have at your disposal for improvements to a home that's not quite right, but could be. It's a very good idea to consider such issues before subjecting them to the influence of outsiders.

Step Two – Finding the Right Real Estate Agent

Some Cautionary Advice on Realtors

As a home buyer, you'll want to search for an agent who specializes in and works exclusively with buyers, also known as a *Buyer's Agent*. It is important to note that real estate professionals tend to also specialize by geographic area, as obviously one cannot be an expert in all markets and must limit their focus to particular neighborhoods. You probably already have a general idea of the neighborhoods where you want to target your search, so it's important to find an agent who specializes in those areas and knows them well.

Because agents work on commission, they receive a percentage of the sales or purchase price only once the deal has closed. Thus, it's important that you and your agent are on the same page in determining how much time will be devoted to your search, as well as the extent of your

search. For an agent, time is money - they sensibly want to spend their time with serious buyers who are clear about what they are looking for and can afford. Because an agent's payday comes only at the completion of the transaction, it may be in their best interest for you to buy sooner rather than later and therefore they may not always give you the most objective advice. And as their commission is based on a percentage of the purchase price, they may also encourage you to buy more than you intended to or truly need to spend. Be aware of this potential for bias or conflict and remember that you, the client, is in control of the search process.

Agents may also have a bias to try to sell you listings only within their own brokerage or office. Typically an agent will receive a higher commission if they are able to find buyers for the listings of agents within their own brokerage firm or office. This situation is referred to as *dual agency* for the agent's brokerage firm, and means there is a possible conflict of interest since the broker is representing the potentially-opposing interests of **both** buyer and seller within the transaction. It is worth noting that this situation can also work to a savvy buyer's advantage in an extremely competitive seller's market; if you are able to identify a property on your own that you are certain you want to purchase, (after completing your own, thorough due diligence) you may have a leg up on the other buyers if you are not represented by an agent and allow the listing agent's broker to represent you.

Agents are always under pressure to get a house sold quickly and as part of the escrow process will likely urge a buyer to use a particular home inspector to evaluate the condition of the home. Home inspectors are supposed to be objective third-party evaluators on the condition of a home and should represent a buyer's interests. However, many an inspector who receives ongoing referrals from a particular agent may not be a true advocate of a buyer's best interests, and could be more likely to help the agent get the deal done. In other words, they may not reveal all the deficits during the inspection process. Sellers today have a high degree of responsibility in disclosing "known defects" in the property, but it is still essential to hire your own independent inspector to represent no one's interest but yours. Your inspector can prove to be a vital resource in steering you clear of homes that are flawed beyond consideration, or can provide you with information that can aid you in negotiating a lower price for the property.

What to Look for in an Agent

Experience - You don't need to select an agent who's been in the business for 25 years but you do want someone with buying or selling experience. Frequently, the best agents come into the real estate industry from other fields. If an agent possesses good communication, marketing and negotiating skills that they have picked up and utilized in other professions, that's all the better for your experience working with a well rounded agent. Also note that the best agents are almost always full timers; don't even consider working with a part time agent. Part time realtors simply do not have the experience or intuitive awareness of the real estate industry to provide you with the best service. And as noted previously, you'll want to target your search for an agent to those agents specializing in the geographic area where you want to focus your search for a home.

Financial Fluency – As a first time buyer, you'll want to obtain an agent who's knowledgeable on the loan qualification process and can competently refer you to lenders who are best able to help find the right loan for you. In the end, if the loan is not approved, the entire transaction will most likely fall apart. It's important to be aware that many real estate agents choose to refer their clients to lenders who have the highest approval rates. However, with high rates of approval comes higher risk and with higher risk, you can and should expect higher interest rates. If you have solid credit and income, there is no reason not to choose the lender offering you the best interest rates and financing terms. Don't go to the higher risk/higher rate lender referred by your agent simply because he or she knows they will approve your loan rapidly and close it quickly. You could end up regretting this decision and paying considerably more over the course of your mortgage.

Top Standards – An agent’s goal should be to find the highest quality home and within the best possible neighborhood their client can afford. It’s important that you and your agent share your same objectives and goals. You’ll want an agent who is detailed oriented, patient, and will make sure you have no surprises in store after escrow closes and the home is yours. Real estate is a referral business where only the best agents survive and prosper in the long run and remain in the business. Make good inquiries, do some research, and get referrals before you decide on your representative and guide in your house-hunting and purchasing adventure.

Skillful Negotiating – A good real estate agent should also be a good negotiator. Putting together an offer, going through the counter offer phase and ultimately closing the deal requires a lot of finesse and an ability to keep all parties in the transaction happy and feeling they’re coming out winners. A good agent will come up with solutions and keep your deal on track should it hit a bump or two in the road.

Good Character and People Skills – Having good people skills is an important asset for an agent as well. If they cannot communicate with sufficient respect and authority to persuade you, the buyer, on the values of a particular home, then it’s unlikely they will be able to successfully handle either the listing agent or seller. Having the utmost honesty and integrity is essential. You can go to the website of the real estate licensing body authorized within your state to check to see if any complaints or grievances have been filed against an agent, and to make certain their license is in good standing. These licensing bodies can usually be located via search engines on the Internet or you can contact a realtor’s office and ask for the licensing organization’s address.

Step Three – Finding the Right Lender

It’s important to note that the lender who helps get your home loan pre-approved might not actually be the best suited to close the deal once you’ve found a property and are in contract negotiations. Just as in any other transaction involving money, you can save substantially by shopping around. Having a lot of competition is a great benefit to a consumer; it helps insure you have many options available at the best possible prices. However, the trade off is that you will be required to sift through the competition and narrow down your choices to make your final selection. There are generally **three** types of lenders from which you can choose to conduct your business: banks, mortgage bankers and mortgage brokers.

Banks – these are those large depository institutions that are household names. Mortgage loans comprise only a portion of their business, as they typically offer a multitude of financial services. They are full service lenders who originate, process, underwrite, fund, close and service a loan. They carry the most overhead and expenses and are therefore less likely to offer the best rates and terms, and may in fact offer slower service because they are processing a higher volume of transactions. There are some exceptions to this rule: some banks do offer discounted rates to those who are large depositors and customers of the bank and are also willing to allow automatic monthly payments to be deducted from their checking account in order to make their mortgage payment. This of course requires you to open a checking account with the bank. However, banks will typically hold onto and service your loan after it closes so you will make your mortgage payment directly to them. Banks may also offer more flexible underwriting guidelines, as they are better able to dictate and control their own levels of risk.

Mortgage Bankers – these companies are more specialized than banks, as real estate mortgages typically comprise all of their business. Mortgage bankers will underwrite, fund and sell your loan and possibly the servicing of it as well. They will likely sell your loan to secondary marketing behemoth’s Fannie Mae and Freddie Mac so that they can in turn utilize those funds to make more loans. Fannie Mae and Freddie Mac then package the loans as mortgage-backed securities and sell them on Wall Street as investment vehicles. The rates offered by mortgage bankers will likely be far more competitive than those offered by banks. However, their

underwriting guidelines tend to be less flexible and forgiving because they must comply with the guidelines of their investors.

Mortgage Brokers – these individuals or firms handle only the front end of the mortgage transaction; they advertise to obtain your business, then process your loan application and deliver it to another lender who will in turn formally underwrite, fund, close, sell and service your loan from there. Depending on a given client's credit and income qualifications, a broker will likely complete your loan with a mortgage banker or bank and therefore has very low overhead and expenses. A broker's rates and contacts would not be the same rates or contacts you could obtain on your own if you by-passed the mortgage broker and went directly to these companies; these are the wholesale divisions of banks and mortgage bankers not normally available on a retail basis directly to the consumer. A mortgage broker may be in the best position to offer you the best rate and terms because they potentially work with many different lenders. However, this is only the case if the broker truly acts as an agent serving your best interests and searches to obtain the best rate and loan available to you. Many mortgage brokers tend to do business with only a handful of lenders and can become complacent about shopping for a good deal, doing what is easiest and most expedient for them. Realistically, finding the right mortgage broker can mean finding one who is honest and has a good work ethic.

In summary, when it comes to lenders, you may be better off applying with several. Even if you begin the process working with only one, you can certainly speak with others to verify whether or not you are getting the best deal and terms available for your mortgage. If you do rely on the recommended lender of your real estate agent, it could be even more important to do a little comparative pricing of your own on the side.

We hope you have enjoyed this guide and find it useful as you make important decisions affecting your future home. ERATE is proud to present many other **Personal Finance Resources** available online. Some of our more popular resources are listed below.

- **Homeowner's Insurance**

<http://www.erate.com/homeowners-insurance-policy.htm>

- **Student Loans from A to Z**

http://www.erate.com/student_loans_financial_aid_education_financing.htm

- **Auto Financing – to Lease or Loan?**

http://www.erate.com/auto_loans_auto_lease_leasing_financing.htm

- **Auto Loans**

http://www.erate.com/auto_loans_car_financing.htm

- **Predatory Lending – Loans You Should Leave Alone**

<http://www.erate.com/predatory-lending-loans-to-avoid.htm>

- **Home Refinancing Demystified**

<http://www.erate.com/refinancing-mortgage-pros-and-cons.htm>

- **How to escape from Spiraling Debt – A Primer**

<http://www.erate.com/debt-problems-bankruptcy-pay-off-debt.htm>

- **The Keys to Healthy Credit Scores**

<http://www.erate.com/credit-score-healthy-credit-repair-scams.htm>

- **Mortgage Pre-Payments Explained**

<http://www.erate.com/prepayment-mortgage-should-you-pre-pay.htm>

About ERATE

ERATE is comprised of experts within the mortgage loan industry. The founders have over 40 years of loan origination experience. In 1992 Loan World, which became part of ERATE when it merged with Progressive Capital in 2000, was the first mortgage lender to originate a mortgage over the Internet and in 1994 created the first online loan application.

ERATE is licensed with the California Department of Real Estate as a California Broker (DRE Lic. #01292265). ERATE is approved with many wholesale mortgage lenders and banks throughout the country; these lenders provide their best rates to compete with one another throughout our network.

Questions? Contact us today at info@erate.com

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2900 Gordon Ave. Suite 100
Santa Clara, CA 95126
www.erate.com