

What you need to know about
buying a home in today's market

A Homebuyer Guide



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HOW DO I KNOW IF I'M READY TO BUY A HOME?

You can find out by asking yourself some questions:

- Do I have a steady source of income (usually a job)? Have I been employed on a regular basis for the last 2-3 years? Is my current income reliable?
- Do I have a good record of paying my bills?
- Do I have few outstanding long-term debts, like car payments? Do I have money saved for a down payment?
- Do I have the ability to pay a mortgage every month, plus additional costs?

If you can answer "**yes**" to these questions, you are probably ready to buy your own home.

HOW DOES PURCHASING A HOME COMPARE WITH RENTING?

The two don't really compare at all. The one advantage of renting is being generally free of most maintenance responsibilities. But by renting, you lose the chance to build equity, take advantage of tax benefits, and protect yourself against rent increases. Also, you may not be free to decorate without permission and may be at the mercy of a landlord for housing.

Owning a home has many benefits. When you make a mortgage payment, you are building equity. And that's an investment. Owning a home also qualifies you for tax breaks that assist you in dealing with your new financial responsibilities, like insurance, real estate taxes, and up keep, which can be substantial. But given the freedom, stability and security of owning your home, they are worth it.

****Keep in mind that your mortgage interest and real estate taxes will be deductible.**



HOW CAN I DETERMINE MY HOUSING BEFORE I BEGIN THE SEARCH?

Your home should fit the way you live, with spaces and features that appeal to the whole family. Before you begin looking at homes, make a list of your priorities – things like location and size. Should the house be close to certain schools, your job, and public transportation? How large should the house be? What type of lot do you prefer? What kinds of amenities are you're looking for? Establish a set of minimum requirements and a "wish list". Minimum requirements are things that a house must have for you to consider it, while a "wish list" covers things that you'd like to but aren't essential.

WHAT SHOULD I LOOK FOR WHEN WALKING THROUGH A HOME?

In addition to comparing the home to your minimum requirement and wish list, use the Home Scoreboard and consider the following:

- Is there enough room for both the present and the future?
- Are there enough bedrooms and bathrooms?
- Is the house structurally sound?
- Do the mechanical systems and appliances work?
- Is the yard big enough?
- Do you like the floor plan?
- Will your furniture fit in the space? Is there enough storage space? (Bring a tape measure to better answer these questions.)
- Does anything need to be repaired or replaced? Will the seller repair or replace the items?



Take your time and think carefully about each house you see. Ask your real estate agent to point out the pros and cons of each home from a professional standpoint.

WHAT DOES A HOME INSPECTOR DO, AND HOW DOES AN INSPECTION FIGURE IN THE PURCHASE OF A HOME?

Home inspectors focus especially on the structure, construction, and mechanical systems of the house and will make you aware of only repairs that are needed.

The inspector does not evaluate whether or not you're getting good value for your money. Generally, an inspector checks: the electrical system, plumbing and waste disposal, water heater, insulation and ventilation, HVAC system, water source and quality, potential presence of pests, foundation, doors, windows, ceilings, wall, floors, and roof. Be sure to hire a home inspector that is qualified and experienced.

It's a good idea to have an inspection or you've bought the house "As-Is". If you put an inspection contingency in when making the offer to purchase it gives you an "out" on buying the house if serious problems are found, or gives you the ability to renegotiate the purchase price if big repairs are needed. An inspection clause can also specify that the seller must fix the problem(s) before you purchase the house.

DO I NEED TO BE THERE FOR THE INSPECTION?

It's not required, but it's a good idea. Following the inspection, the home inspector will be able to answer questions about the report and any problem areas. This is also an opportunity to hear an objective opinion on the home you are purchasing and it is a good time to ask general maintenance questions.

DO I NEED A TERMITE & PEST INSPECTION?

All homes in Hampton Roads will require a clear termite letter for the mortgage lender.

HOW CAN I PROTECT MY FAMILY FROM LEAD IN THE HOME?

If the house you're considering was built before 1978 and you have children under the age of seven, you will want to have an inspection for lead-based paint. It's important to know that lead flakes from paint can be present in both the home and in the soil surrounding the house. The problem can be fixed temporarily by repairing damaged paint surfaces or planting grass over effected soil. Hiring a lead abatement contractor to remove paint chips and seal damaged areas will fix the problem permanently.



DO I REALLY NEED HOMEOWNER'S INSURANCE?

YES. A paid homeowner's insurance policy (or paid receipt of one) is required at closing, so arrangements will have to be made prior to that day.

HOW DO I MAKE AN OFFER?

Your real estate agent will assist you in making an offer, which will include the following information:

- Complete legal description of the property
- Amount of earnest money
- Down payment and financing details
- Proposed move-in date
- Price you are offering
- Proposed closing date
- Length of time the offer is valid
- Details of the deal

Remember that a sale commitment depends on negotiating a satisfactory contract with the seller, not just "making" an offer.

HOW DO I DETERMINE THE INITIAL OFFER?

You should have a buyer's agent; remember that the agent selling the home works for the seller. Listen to your real estate agent's advice when deciding on a fair price. Calculating your offer should involve several factors: what the homes sell for in the area, the homes condition, how long it's been on the market, and the seller's situation. By the time you're ready to make an offer, you should have a good idea of what the home is worth and what you can afford. And, be prepared for give-and-take negotiation, when necessary. The buyer and seller may often go back and forth until they can agree on a price.



WHAT IS EARNEST MONEY? HOW MUCH SHOULD I SET ASIDE?

Earnest money is money put down to demonstrate your seriousness about buying a home. It must be substantial enough to demonstrate good faith and is usually between 1-5% of the purchase price. If your offer is accepted, the earnest money becomes part of your down payment or closing costs.

If the offer is rejected, your money is returned to you. If you back out of a deal, you may forfeit the entire amount.

WHAT ARE "HOME WARRANTIES" AND SHOULD I CONSIDER THEM?

Home warranties offer you protection for a specific period of time (e.g. one year) against potentially costly problems, like unexpected repairs on appliances or home systems, which are not covered by homeowner's insurance. Warranties are becoming more popular because they offer protection during the time immediately following the purchase of a home, a time when many people find themselves cash-strapped.

WHAT SHOULD I LOOK OUT FOR DURING THE FINAL WALKTHROUGH?

This will likely be the first opportunity to examine the house without furniture, giving you a clear view of everything. Check the walls and ceilings carefully, as well as any work the seller agreed to do in response to the inspection. Any problems discovered previously that you find uncorrected should be brought up prior to closing. It is the seller's responsibility to fix them.

WHAT DO I GET AT CLOSING?

- Settlement Statement, HUD-1 form (itemizes services provided and the fees charged; it is filled out by the closing agent and must be given to you at or before closing)
- Truth-in Lending Statement
- Mortgage Note
- Mortgage or Deed of Trust
- Binding Sales Contract (prepared by the seller; your lawyer should review it)
- Keys to your new home





WHAT MAKES UP CLOSING COST?

There may be closing cost customary or unique to a certain locality, but closing costs are usually made up of the following:

- Attorney's or escrow fees (Yours and your lender's if applicable)
- Property taxes (to cover tax period to date)
- Interest (paid from date of closing to 30 days before first monthly payment)
- Loan Origination fee (covers lenders administrative cost)
- Recording fees
- Survey fee
- First premium of mortgage insurance (if applicable)
- Title Insurance (yours and lenders)
- Loan discount points
- First payment to escrow account for future real estate taxes and insurance
- Paid receipt for homeowners insurance policy (fire and flood insurance if applicable)
- Any documentation preparation fees

BUYERS DON'T DO THIS!!!

10 THINGS YOU SHOULDN'T DO WHEN YOU'RE BUYING A HOME

The sellers accepted your offer to purchase, the home is officially under contract and you're counting down the days to closing. The lender pre-approved you, so buying the house is a sure thing, right?

Sorry, but nothing is certain until the keys are in your hands.

There are still major hurdles to past before you close and your actions between now and closing can create headaches, slowdowns and even break a deal.

1. DON'T MAKE ANOTHER MAJOR PURCHASE

You've just found out your credit is A+. That's good news, because a new car would look fantastic in the driveway of your new home. If you're paying cash for the home, go right ahead, but if you are depending on a mortgage to move in, you'd best wait until after closing. An increase in your debt to income ratio reduces the amount of monthly income available for your mortgage payment. If you tack on a higher car payment, the bank might decide you cannot afford the home.

Using cash for a purchase can be a problem too, since banks consider cash reserves when approving a loan. If you must make a major purchase before closing, talk to your loan officer before you do it.

Personal loans and school loans taken out will affect your credit. Check with your lender before you take out any other loans when buying a house.

2. DON'T CHANGE JOBS UNLESS IT'S NECESSARY

Banks like to see a consistent job history. They aren't usually as nervous if you change jobs within the same field, but it's better to stay put until the keys to the house are in your hand.

3. DON'T SPEND MONEY NEEDED FOR CLOSING

The final, exact figure is typically not known until at least 24 hours prior to closing, but rest assured that we will advise you of the exact amount as soon as we know what that amount is. Be prepared though, for a specific minimum amount of money based on the good faith estimate provided by your mortgage loan officer.



4. DON'T LET YOUR EMOTIONS TAKE OVER

Keep a cool head during the entire closing process, especially during and after an inspection. Be realistic. No home is perfect, especially older homes. Don't let the seller's refusal to do a small repair kill the deal on a home you truly love. It's not at all unusual for new owners to take care of some things themselves.

On the other hand, don't fall so much in love with the house that you'll buy it no matter what needs to be done—unless you're absolutely sure you can handle it emotionally and financially. Decide what type of repairs you can realistically handle, and then stick with the decision.

5. DON'T FORGET TO SWITCH UTILITIES

That sounds simple, but you'd be surprised how many people forget to apply for utility service at their new home. Call the utility companies as soon as you have a contract. Find out how many days lead time they need to turn on the new service, and then get back with them when you have a firm closing date. Don't forget to discontinue services at your old home.

6. LINE UP YOUR HAZARD INSURANCE

A no-brainer, right? But it's another often-forgotten task that buyers scramble to take care of at the last minute. Your lender will require an insurance binder for the new home at or prior to closing. Take care of it as early as possible.

7. DON'T BECOME BEST FRIENDS WITH THE SELLER

I'll get some flack on this one. It's great to be friendly, but don't get into too many long discussions with the sellers, because personality conflicts often cloud judgments. I've seen sellers who refuse to make even small repairs because something about the buyers turned them off.

And remember, this is their home. You're no doubt excited about moving in, and if you didn't like the house you wouldn't have offered to buy it. But you'll make changes—everyone does. A casual statement about "ripping up that ugly carpet" might be hurtful enough to keep the seller from negotiating with you about repairs or other issues that crop up.



8. DON'T PANIC IF THE APPRAISAL COMES IN LOW

At least not at first. There are some things you (and your agent) can do to correct the problem. Study your options.

9. DON'T GO IT ALONE

If you're working with an agent, it's the agent's duty to help you make it to closing. The agent should be tracking many of the day to day details that involve the lender, the seller, or the seller's agent.

10. DON'T IGNORE LENDER REQUIREMENTS

Know what is expected of you and take care of it. For instance, a Certificate of Eligibility is required to move forward on a VA loan. That's something you must handle yourself.

The lender might need copies of your bank statements or other documents. Your insurance company might have questions. If someone who controls closings asks you for something, get it to them as soon as possible.



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Mortgage Loan Information



Mortgage FAQs

When should I apply?

While you are not required to secure financing before you pick a property, it is in your best interest to meet with a Loan Professional to determine the amount of loan you will be able to afford and to ensure there are no surprises on your credit report that need your attention. At this point in time it is usually always required that you have a pre-approval letter accompanying any offers to purchase.

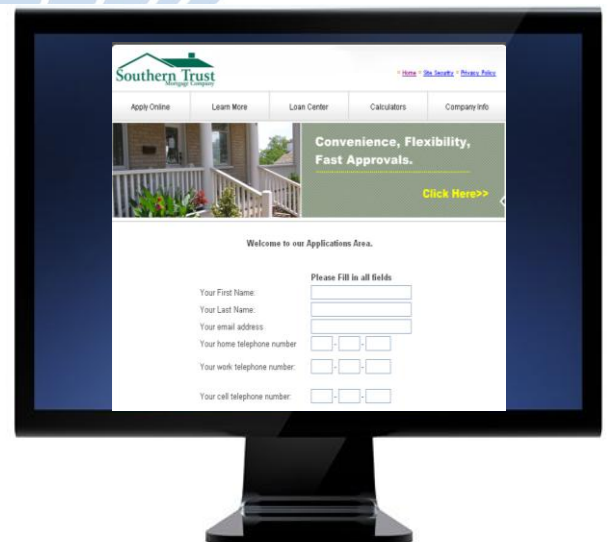
Where do I apply?

If you want to apply for mortgage, please contact me, Brad Shoemaker, or you can apply on line www.BradShoemaker.org, I will answer any questions you have and take your application over the phone or schedule a personal appointment at a time and location convenient for you.

What information will be required when I apply?

To speed the application process, here is some of the information you should provide:

- Sales Contract (if available)
- Social Security number
- Photo Identification
- Most recent pay stubs covering one months worth of income
- Two years' most recent W-2s
- Last 2 consecutive monthly statements from all asset accounts (Include IRA, TSP, 401K, etc.)
- Two years residence history with addresses and phone numbers
- Two years employment history with addresses and phone numbers
- For VA applicants only — Certification of Eligibility and DD214
- Authorization to obtain credit report
- You should be prepared to pay for your credit report and appraisal at the time of application.



How long does the mortgage process take?

Processing and closing a mortgage usually takes between 15 and 45 calendar days. Your Southern Trust Mortgage Loan Officer can give you an estimate based on your individual situation.

How much does it cost to close a mortgage?

In addition to your down payment, you may have to pay for closing costs and prepaid items. Your Loan Officer will provide you with an initial fees worksheet, which itemizes the closing costs, including but not limited to: Loan Origination Fee (varies with loan type and term), Discount Points (optional fees which can be paid to lower your interest rate), Appraisal Fee, Credit Report, Flood Zone Certification, Lenders Title, Insurance, Owners Title Insurance (optional but recommended), Recording Fees, Survey Fee, Pest Inspection (if required), Underwriting/Document Review Fee Processing Fee. Per Diem Interest (will vary based on closing date). Tax Service Fee, Attorney/Settlement Fee, Courier Fees, Homeowners Insurance, Mortgage Insurance, Property Taxes, and any Additional Fees as may be required by your State or locality. Many of the same fees apply to refinance loans, but closing costs can often be included in the loan amount on refinances to eliminate any out of pocket expense.

I already own a home and am looking to relocate. Do I need to sell my current home before I purchase a new home?

In the current real estate market, you may or may not have the luxury of writing a sales contract contingent upon the sale of your current residence. If you need the proceeds from the sale of your current residence in order to purchase a new residence, consider a contingent contract. If you are in a financial position such that you can afford both the mortgage on the existing and the new residence, you may elect not to sell your existing residence.

Do I need a real estate agent? How should I decide what real estate agent to use?

Real Estate Agents are often made aware of properties for sale before the general public. They can help you find a home that meets your needs much quicker by selecting properties for you to see based on the criteria that you give them (neighborhood, amenities, schools, etc). Your Real Estate Agent will advise you on how to write an attractive sales contract and will work as a negotiator between you and the seller and his/her listing agent. If you do not have an agent, your Loan Officer will be happy to recommend a reputable one in your area.



I have children...how do I find out about the schools in each neighborhood?

If you are working with a real estate agent, your agent should have information on the schools in your selected area. You may also contact the neighborhood schools directly for information or go to www.greatschools.net for information.

How will my real estate agent and my Loan Officer work together to coordinate the closing?

Good Real Estate Agents keep in close contact with all parties involved in a transaction. In a typical sale, purchase contract contingencies (i.e. financing, inspections) require that an agent communicate well with all parties to ensure that the contingency deadlines are met. The Real Estate Agents, Loan Officer and Settlement Agent/Attorney are dependent upon one another to close a transaction, so it is in their best professional interest, as well as their client's, to communicate efficiently and effectively with one another. As a buyer, you should also keep in close contact with each of these service providers for a status and progress report.

What is the minimum down payment required to buy a home?

Southern Trust Mortgage offers programs with down payment options as low as zero percent. The average homebuyers make down payments of 3.5%-20%.

What is the minimum down payment typically required purchasing an investment or rental property?

The down payment requirement can vary depending upon the conditions of the economy at the time you are purchasing and can vary dramatically between lenders. Many lenders require a 20-30% down payment for homes that are not owner occupied. Southern Trust Mortgage offers several superior investment property financing options.

What is private mortgage insurance and am I required to have it?

Private mortgage insurance (PMI) is paid by the borrower to protect the lender in the event that the borrower defaults on the mortgage. Mortgage insurance is generally required on loans that exceed 80% of the value or purchase price of a property. It can also be required at other times if the lender perceives a higher risk associated with a particular loan program. There are financing options, which allow borrowers with a limited down payment to avoid mortgage insurance (i.e. obtaining a first and a second mortgage rather than one mortgage for more than 80.00%). There are a few programs which do allow higher loan-to-values and do not require mortgage insurance. Your Southern Trust Mortgage Loan Officer will explain each available option to you so that you can decide the best financing option for your unique situation.





What is Homeowner's/Hazard insurance?

Homeowner's insurance protects both the owner and the lender against physical damage to the property (i.e. fire or burglary). Some perils are not generally covered by the standard homeowner's policies, for example floods and earthquakes. Also, properties located in areas prone to fires and windstorms may have difficulty obtaining standard insurance policies.

How much Homeowner's insurance coverage do I need?


Your homeowner's policy must be for an amount equal to or greater than the value of the dwelling as stated in your appraisal. Lenders prefer and may require that you also have guaranteed replacement cost coverage, which will generally pay out 20-50% more than the face value of the policy to rebuild your home in the event of severe damage. A replacement-cost policy typically adjusts the amount of insurance each year to keep pace with rising construction costs in your area.

Must I have flood insurance coverage?

Southern Trust Mortgage will order a flood zone certification, which identifies whether or not all or part of your property lies in a flood zone. If the property is in a flood zone, you will be required to purchase and maintain flood insurance on the property.

What is title Insurance and why do I need it?

Before you purchase a property or close on a new loan, the homeowner and lender must be certain that the title to the property will be free and clear, free of prior defects and clear of indebtedness. A title company researches the legal history of the property, which entails searching public records in the offices of the county recorder. Problems with the title could threaten the mortgage, limit one's use and enjoyment of the property and could result in financial loss. A policy of title insurance protects a homeowner's title and the insurer covers the cost of any legal challenges. Your Lender will require that you have "Lenders Coverage"; it is also recommended, but not required, that you purchase "Owner's Coverage" to protect your own interest and investment in the property.



I want to purchase a condo or a property in a PUD (Planned Unit Development). What is the function of the Homeowner's Association (HOA)?

In some states, Homeowners' Association (HOA) is legally required for developments where residents share an interest in common property, such as condominiums or town homes. The association is headed by a board of directors which generally follows a set of bylaws regarding maintenance, upkeep and other issues pertinent to the development. The development's unit owners must become members of the association and comply with its by-laws and pay dues or fees to finance maintenance and other development expenses (i.e. the master insurance policy).

What expenses are typically covered in the Homeowners' dues?

HOA dues cover the general maintenance and upkeep of all common areas within the development. These dues also contribute to the premium payments for the master policy of insurance, which protects all unit owners. Also included in HOA dues are major repairs not covered by insurance, the HOA could handle these unexpected expenses by a special assessment of all unit owners or by raising the association dues.

If my neighborhood has an HOA, what type of insurance will I be required to obtain independently?

The master insurance policy, which is purchased on behalf of all unit owners by the HOA, covers all units or structures located within the development but does not typically cover an individual unit owner's personal belongings located within their dwelling. Therefore, it is a requirement to purchase a separate contents coverage policy for the protection of personal possessions.

What is the difference between pre-qualification and pre-approval? Is it necessary to get pre-qualified before making an offer on a property?

Some borrowers begin looking for a home before they meet with their Lender. While you are not required to secure financing before you pick a property, it is in your best interest to meet with a Loan Professional to determine the amount of loan you will be able to afford before you sign a contract. (Most if not all agents will require you get a pre-approval as most sellers will require this with any offer to Purchase submitted.) Because a pre-approval includes a credit check, it is more powerful than a pre-qualification letter, which only estimates what you can afford based on a few simple calculations involving your income and debts. Becoming pre-approved lets you:

- Shop for a home with the confidence of knowing that you will be able to afford the mortgage.
- Write a more attractive sales contract as sellers may give preferential treatment to pre-approved buyers.
- Find out about possible qualification problems early in the process.



In order to be pre-approved you will need to provide your Southern Trust Mortgage Loan Officer with detailed information and documentation regarding your total financial picture. Your Southern Trust Mortgage Loan Officer will review your financial situation, discuss mortgage options with you, and if you qualify, provide you with a written letter for a specific loan amount, down payment, and interest rate subject to terms and conditions (i.e. property appraisal).

How long does it take to get pre-qualified or pre-approved for a loan?

Loan pre-qualification can occur in a matter of minutes, in the time required to communicate your financial circumstances to a lending professional so they can crunch the numbers. Loan pre-approval could require up to several days to review the application and file once the applicant's income, asset and credit documentation has been received in full.

What types of problems typically cause delays in the closing date?

This varies from one transaction to another, but the typical closing delays relate to a failure to satisfy loan conditions quickly or a buyer's delay in setting up their homeowner's insurance. The loan condition that most frequently causes problems in the need is a borrower's lack of documentation regarding the source of funds for the down payment and closing costs. Lenders want to see a paper trail of all funds transferred into escrow, and unless a borrower takes the time to document the liquidation, withdrawal and transfer of funds along the way, they must scramble at the end of the transaction to re-create their trail. If the property in question is new construction, building and completion delays frequently occur depending on weather delays, contractor and sub-contractor problems and the builder/developer involved.

What is the APR and how is it calculated?

APR stand for annual percentage rate and its purpose is to give borrowers a more accurate representation of the effective interest rate on their loan. APR factors in certain closing costs and fees and spreads these costs over the life of the loan, along with the note rate, to arrive at a more accurate figure, which represents the cost of the financing. Your Mortgage Loan Officer will provide you with a Truth in Lending Statement within 3 days of application that shows the estimated APR. You will receive the final Truth in Lending Statement at closing that shows exact figures.

When and to whom do I make my payments?

Your Southern Trust Mortgage Loan Officer will advise you when your first payment is due based upon your closing date. You will receive a First Payment Letter and two temporary payment coupons in your closing package. It may take a few weeks for your Lender to complete the initial set up of your loan. If you do not receive a statement or payment booklet before your first payment is due, you **MUST** make your payment. Use the temporary coupons and follow the instructions from your closing package. Many Lenders transfer the servicing rights of your loan to other investors. This does not affect the terms of your loan; it simply means that another company is responsible for collecting and accounting for your monthly payments. If the servicing rights of your loan are going to be transferred you will be notified in writing of the effective date of the transfer and to whom you should begin making payments. If at any time you have a question about your payment due date or where it should be sent, please contact our customer service department at 800-748-2147.

