

My Florida Home Book 1.3: The Home Purchase Process¹

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General Home Purchase Process

In general, the home purchase process flows through the following eight stages:

- Stage 1: Pre-Purchase Preparation
- Stage 2: Mortgage Pre-Approval
- Stage 3: Home Selection
- Stage 4: Purchase Offer
- Stage 5: Mortgage Financing
- Stage 6: Home Inspection
- Stage 7: Title Search
- Stage 8: Closing the Deal

First, you prepare for the home purchase starting from evaluating your own readiness for homeownership, as done in the sections preceding this chapter. After checking your readiness and budget, you may want to get preapproved by a lender to secure your mortgage from the beginning.

Mortgage preapproval is not for a specific house but for a specific amount of loan that you may borrow to secure the home purchase. Once preapproved, you would shop for a home that meets your determined needs and is within the loan amount. Upon finding the right home, you could make an offer and start the approved mortgage financing if the seller agrees to your proposed purchase price. You would arrange for thorough inspection of the home and title search, and then close the deal.

In each stage, you may choose to get various professional help rather than attempting the task yourself. You will learn more about working with housing professionals in My Florida Home Book 1.4: Working with Housing Professionals. Mortgage financing is explained in more detail in My Florida Home Book 1.5: Finding a Mortgage.

Making a Purchase Offer

When buy a home, bargaining is the name of the game. There is the seller's "asking price," and then there's the price you're willing to pay. The price you both agree upon is usually somewhere in the middle.

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Once you find a house you want, the negotiation begins. Negotiating to buy a home is a way of telling the seller the price and conditions you are willing to settle on for the house. Realtors often mediate the negotiations.

Your purchase offer is a legal contract. You'll need to fill out an official "Offer to Purchase," a contract drafted by the Florida Bar Association. The real estate agent will have this form, or you can purchase one from an office supply store. Your Offer to Purchase will list the price you are willing to pay as well as the terms and conditions of the sale you are willing to accept, the date for a final walk-through inspection, a closing date, and a date for possession.

Considerations to Make Before Signing an Offer to Purchase

The following are just some of the factors to consider before you decide on an offering price:

What is the assessed value?

This figure is available at your local tax assessor's office. You must know the exact address or location of the home in order to find the correct assessed value. The assessed value is usually lower than the market value (fair selling price), sometimes considerably so, but it gives you a dollar amount to work from when making your offer.

Get a market analysis report

A real estate agent can run a market analysis of the most recent sale prices of homes similar to and in the same area as the one in which you are interested in buying. This analysis will give you an idea if the home is worth the asking price or needs to come down.

What is the condition of the home?

Consider the cost of necessary repairs that you will have to pay for once you become the owner. These costs will help back up your reasons for offering or requesting a lower price of the home.

Why is the house for sale?

Find out how long the house has been for sale and why. For example, the seller may need to move to another city, or there may be financial or other issues that cause the owner to be anxious to sell. If the house has been on the market for a while and hasn't sold within a "reasonable" amount of time, the seller may be willing to accept a much lower price.

How much did the seller pay and when?

Did the seller just buy the home? Are prices keeping up with what the seller paid, or have they changed unfavorably?

How much equity does the seller have in the home?

The more equity that the seller has in the home, the more flexibility they have in coming down in price.

What is the seller willing to offer with the asking price?

Sometimes the seller is willing to add other incentives with the deal such as paying all or some of the closing costs, giving money back at closing for repairs, etc.

Negotiating Tips

During a home purchase process, you can expect to haggle back and forth over the price and contingencies. Be willing to bend a little, but also stand firm on the things you want. Most agreements require two or three rounds of offers and counter offers before the deal is sealed. Take your offer seriously, because once the seller signs in agreement, it becomes legally binding. Do not respond to any suggestions or counter offers unless presented in writing.

For example, the real estate agent may tell you your offer is too low and insist on a written counter offer with the price and changes that would be acceptable in the event the seller refuses your first offer. Do not feel pressured into raising your price on the spot. Go back and look at a house several times if necessary. You can't really see everything about a house in one visit. You may want to go back after a rain, for instance, to see if there are water problems.

Make a list of the things you like and dislike about the house. This will give you additional tools for making an offer. Take your time and use common sense. If the seller agrees to make certain repairs, be sure the details in the written contract of sale. Also, insist upon your preference for a contractor, and that all repairs meet your approval.

Mortgage Financing

Mortgage financing is perhaps the most complicated part of a home purchase. Before you even start shopping for a home, you may decide to get a mortgage preapproval to secure your mortgage amount. If not, you will need to apply for a mortgage when you select a home to purchase in order to make a valid purchase offer. A mortgage is a long-term financial commitment, up to 30 years. Moreover, depending on your mortgage amount, interest rate, and other conditions, you can save several thousand dollars throughout your mortgage-financing period, or end up paying far more than you intended. Therefore, you need to be very careful when choosing your mortgage. In My Florida Home Book 1.5: Finding a Mortgage, you will learn more details about mortgage options.

Appraisal

A real estate appraisal helps to establish a property's market value—the likely sales price it would bring if offered in an open and competitive real estate market. When you apply for a mortgage, the lender will require an appraisal when you ask to use a home or other real estate as security for a loan because it wants to make sure that the property will sell for at least the amount of money it is lending. The property under appraisal is the *subject property*. You will probably pay for the appraisal when you apply for your loan.

Residential Appraisal Report

Appraisals are very detailed, below are a few items that may be included:

- Details about the property, along with side-by-side comparisons of three similar properties within the area where the property is located

- An evaluation of the overall real estate market in the area
- Statements about issues the appraiser feels are harmful to the property's value, such as poor access to the property (i.e. easements or unpaved roads)
- Notations about seriously flawed characteristics, such as a crumbling foundation
- An estimate of the average sales time for the property
- What type of area the home is in (a development, stand-alone acreage, condominium etc.).

Appraisal Methods

There are two common appraisal methods used for *residential properties*—the comps approach and the cost approach.

Sales Comparison Approach

The appraiser estimates a property's market value by comparing it to similar properties that have sold in the area. The properties used are *comparables*, or *comps*.

No two properties are exactly alike, so the appraiser must compare the comps to the property, making paperwork adjustments to the comps in order to make their features more in line with each other. The result is a figure that shows what each comp would have sold for if it had the same components as the subject.

Cost Approach

The cost approach is most useful for new properties, when the costs to build are known. The appraiser simply estimates how much it would cost to replace the structure if it were destroyed.

What Does the Appraisal Mean to the Buyer?

The bank wants to be sure that its investment is covered in case you default on the loan. If the property appraises lower than the sales price, the loan

might be declined, but that isn't the only hurdle a sale must pass. Other facts on the appraisal can be a problem, too. The bank probably won't like it if the estimated time to sell the property is longer than the area average. If the appraiser notes that entry to the property is from a private, shared road, the bank might want to see a road maintenance agreement signed by everyone who uses the road, verifying that all parties share maintenance. These are just a few examples of negatives that could stall your purchase. The lender will study the appraisal carefully before determining whether the property qualifies to serve as security for your loan.

Appraisal and Home Inspection

Appraisers make notations about obvious problems they see, but they are not home inspectors. They do not test appliances, look at the roof, check the chimney, or do any other typical home inspection tasks. Never count on an appraisal to help you determine if the home is in good condition. Just like an appraisal, a buyer may need to find a home inspector to inspect the home's structural and electrical conditions. The home inspector will also provide a report that a buyer may use in the bargaining process.

Survey

In simple terms, the survey is a process to verify the property border. From a survey, you will be able to determine:

- whether the home's structures are within the property borders;
- whether there are any encroachments on the property by neighbors; and,
- the extent to which any easements on the property may affect the legal title.

Role of a Survey

Lenders always insist on obtaining a clear "lender's" title insurance policy covering the face value of the mortgage. Title companies will issue an exception to title unless a survey has been ordered, and thus surveys are usually required.

Anyone buying a house should obtain a survey whether or not the lender requires it. It is a good idea to learn, for example, where your property lines are, and whether there are any building restrictions affecting your right to add a porch or a fence. It is also important to know whether any portion of your neighbor's property—such as a fence—is actually on your property.

Survey Cost

Survey prices vary considerably from as low as \$150 to as high as \$300, for the same single-family house. Ask your settlement attorney for an estimate. If it seems too high, arrange for your own survey and make sure a copy of the survey gets to your lender well in advance of settlement. A qualified, licensed surveyor (check for qualifications from the Better Business Bureau or the local licensing authority) must do it.

A buyer may also ask the sellers who did their survey when they purchased the property. However, some lenders may not honor a survey that is more than six months old. You may inquire from the prior surveyor whether he/she can simply update the most recent survey and whether this would result in a discount for the service. Reputable surveyors may give you a reduced price for the updated survey.

Buyers should also visit the Official Surveyor in the government land records office for the region where your property is located. They are quite helpful and may be able to assist you with boundary questions, easement issues, and the like.

Buyers should ask for a copy of the survey from their settlement attorney. It will come in handy in the future, whether you refinance or plan to build an addition.

Condominium Purchase and Survey

When purchasing a condominium unit, buyers do not have to obtain—or pay for—a separate survey of your unit. That survey was part of the plans recorded with the condominium construction documents.

Survey and Appraisal

It is important to distinguish between a survey and an appraisal. Both of them are usually expenses charged to the buyer at settlement. An appraisal assists the mortgage lender in assessing the value of the house to determine whether a mortgage should be approved and in what amount. Generally, the appraisal will analyze the condition of the house, its location, structural soundness, and comparable sales in the area.

Home Inspections

Purchasing a home is a huge investment. Although you are supposed to check several critical features during the home selection stage, you also need to perform a thorough inspection of the home that you intend to purchase to know the exact condition of the home before you sign a contract. You may have to spend several thousand dollars to repair some critical structural or system defects that you did not recognize before you close the deal.

You need consider all defects or problems in the negotiation process. Depending on the conditions, you may ask the current owner of the home to repair or improve specific problems by a certain date before closing. In such a case, formally written requests should be included in your official Offer to Purchase. A thorough home inspection will also better prepare you to plan for any future repairs or improvements after you purchase the home.

In addition to regular home inspections, consider an energy rating inspection as well as a termite and other wood destroying organism damage inspection.

You may choose to perform home inspections by yourself or hire a professional home inspector. However, Florida law (section 553.990, Florida Statutes) requires that only State-certified individuals can do an energy rating, if you choose to get one done. For the termite damage inspection, you may hire a Wood-Destroying Organism (WDO) inspector.

More details regarding working with home inspectors will be explained in My Florida Home Book 1.4: Working with Housing Professionals.

Home Purchase Contract

It is very important that you understand what to look for in the contract before signing it. You should know that once you sign the contract, it is legal and binding. If you do not understand any part, ask questions before you sign. Do not assume anything and make you understand what you are signing.

Purchase Contract for an Existing Home

If you are buying an existing home, your purchase contract should include the following:

- The names and addresses of both buyer and seller
- The legal description of the property to be purchased (address, lot and block number)
- The mortgage amount needed to finance the house
- The deposit amount and the party who will hold it in escrow until closing
- The approximate closing date
- Provisions to extend the closing date in case the buyer or seller can't meet the terms of the contract
- Conditions for disposition of the deposit in case either party fails to close
- The amount of realtor's commission (if any, to be paid by the seller)
- Designation of the payer of specific closing costs
- Adjustments to be made at the closing (property taxes, "points" paid by buyer, seller, or builder)
- Items included in the sale, such as carpeting or draperies, fixtures like a wood-burning stove, fireplace, equipment, drapery hardware, outdoor or indoor furniture, etc. including color, make, model, type, etc. specified in the contract
- Special conditions of the sale i.e., if the house contains defects, what the seller will do to correct them

- Mandatory and optional inspections the buyer can make before the closing, such as termite, home inspection, radon, and water
- Property easements (the rights of others to use the land)
- Any contingencies that will allow you out of the contract if certain criteria are not met (see below)

Home Building Contract

If you are building your own home, the contract should include these items:

- The contractor's name, address, phone, and license number
- The payment schedule for the contractor, subcontractors and suppliers
- An estimated start and completion date
- The contractor's obligation to obtain all necessary permits
- How change orders will be handled
- A detailed list of all materials including color, model, size, brand name, and product information
- Warranties covering materials and workmanship
- What the contractor will and will not do. For example, is site clean-up and trash hauling included in the price? Ask for a "broom clause." It makes the contractor responsible for all clean-up work, including spills and stains.
- Any oral promises also should be added to the written contract

Common Contingency Clauses

You need to consider what contingency clauses you want added to the contract. A Contingency Clause is a condition you expect to happen before you will agree to purchase the house. You request these conditions (contingencies) in writing as part of your offer to buy. If the seller fails to meet the agreed

upon conditions, you have a legal right to back out of the offer.

Some examples of contingency clauses are as follows.

Subject-to-financing

It allows you the safety to make an offer to purchase before you know if a bank will approve you for a loan. If the lender does not approve your loan application, you can legally withdraw your offer on the house. The subject-to-financing clause could specify the maximum interest rate than a buyer will pay, or, if the appraised market value is less than agreed-upon purchase price, the contract can be voided and your full deposit refunded, or the contract could be re-negotiated.

Subject-to-inspection

It allows you to change your offer if an inspection finds the house is in need of repair. You can ask the seller to pay for the repairs, offer a lower price, or back out of the deal. You will have to arrange and pay for the inspection, but it may save you money in the end.

Subject-to-termite inspection

It lets you legally withdraw your offer if an inspection shows damage from termites.

Subject-to-appraisal

It allows you to change your offer or back out if the appraisal is less than your offering price.

Subject-to-SHIP approval

It allows you to withdraw your offer if funding is denied or unavailable through the SHIP program.

In addition, the following are examples of contingencies in the case of building a new home:

- This offer is contingent upon sale of the buyer's home.
- Time is of the essence in this agreement (if the buyer has a critical deadline).

- This offer is subject to the buyer's written approval of an itemized list of personal property items to be included with the sale of the house.
- If the buyer refuses to complete settlement, then the seller can keep the buyer's deposit as "total" liquidated damages. As a buyer, you should include a clause for "specific performances," wherein if the buyer, for any reason, backs out of the contract, he/she is responsible for the total purchase price and not just liquidated damages (the down payment).
- If the seller should default on the contract, the buyer is entitled to damages. (This could be the amount of the deposit or more like furniture storage fees, for example).
- All systems (heating, air, plumbing, septic) and any appliances included with the sale should be in working order for at least 30 days after settlement.
- All dates and times are extendible for up to 30 days, if necessary, for mortgage approval.

Title Search

Title search is an examination of public records to determine and confirm a property's legal ownership, and find out what claims are on the property. A title company or an attorney, who researches the vested owner, any liens or other judgments on the property, the loans on the property as well as the property taxes due, usually performs a title search.

Before you close a deal on the purchase of a home, a title company will search public records on the property's ownership. Once the search is finished, you'll receive a preliminary title report. If there are any issues or problems with the title, you can point them out to the seller. Some problems are easily cleared up; while others may take so long, they jeopardize your loan commitment.

Title insurance is a protection against loss arising from problems connected to the title to the property. Before you purchase the home, it may have gone through several ownership changes, and the land on which it stands may have gone through many more.

There may be a weak link at any point in that chain, and this could spell problems. For example, someone along the way may have forged a signature in transferring title. Alternatively, there may be unpaid real estate taxes or other liens on the property. Title insurance covers the insured party for any claims and legal fees that arise out of such problems.

Title insurance is a one-time fee for policy coverage for as long as you live in the home. You will be required to purchase title insurance to satisfy the lender. You should also consider purchasing title insurance for your records. If you purchase at the same time as the lender's policy it is generally cheaper. One way to get title insurance is to have the seller purchase it for you. You can add this as a contingency in your sales contract.

Closing the Deal

The best strategy for a smooth closing is to know what is involved, think ahead, and get help. The final days and weeks before closing can be a very stressful period for both buyers and sellers.

At the loan closing, or settlement, your mortgage is activated, the title (ownership) to the property is transferred from the seller by recording a deed, and you are given the keys to your new home. In order to take possession of your new home, you will need to sign many papers, pay your closing costs and the remainder of your down payment. The other attendees present at the closing may include the seller, real estate agents, closing agent and the buyer and/or seller's attorney. The meeting can often take an hour or more and will be held at the location specified in the agreement, unless other arrangements are agreed upon.

Documents Needed at Closing

HUD-1 Settlement Statement

This is a standard form detailing all of the funds that are payable at closing. Protected by the Real Estate Settlement Procedure Act (or RESPA), you should receive a final copy at least one day prior to closing. Make sure you have the name, address, and telephone number of the closing agent if you wish to inspect this form. If you owe money at closing, you will need

to arrange for a cashier's check because cash or personal check will not be accepted at the closing.

Truth-In-Lending Statement

This is a standard form, required by the Truth in Lending Act (Title I of the Consumer Credit Reporting Act), disclosing the terms and conditions of a mortgage, including the annual percentage rate (APR) and other charges.

The Promissory Note

This is a written undertaking, or promise, to repay a specified amount over a specified period. You or your attorney will want to review this prior to closing.

The Mortgage

This is a legal document evidencing the lender's interest in a property to secure repayment of debt. You or your attorney will want to review this prior to closing.

The Deed

This is a legal document transferring, or conveying, title to a property.

Affidavits

These are statements sworn in writing by the borrower.

After the Closing

After the meeting, the closing agent will officially record the deed and the mortgage at the registry of deeds or local clerk's office. The closing agent usually will not disburse the funds to everyone who is owed money from the sale until the transaction is recorded. When the deed is recorded, you are officially the owner of the home.