CHAPTER 7 WHO'S INVOLVED IN THE BUYING AND SELLING OF A HOME?

When you're ready to make the move to homeownership, you'll work with several business professionals. It's important to understand what they do because they're interests can differ from your own.

You can use this chapter to familiarize yourself with business professionals you'll encounter in the home buying process.

Who will you meet during the home buying process?

Once you've decided to become a homeowner, developed your budget and saving plans and evaluated your financial situation, you'll find several different business professionals are part of the home buying experience. You'll be the star in this performance, with a varied cast of supporting players. You may not meet each of them face-to-face, but they all play important roles.

Table 7-1: Who's Involved in Home Buying and Selling?

Loan officer	**A financial professional who will determine approximately how much money you'll be able to borrow for a mortgage loan.**
Mortgage lender	The business person or financial institution that provides the money you'll use to purchase your new home.
Mortgage broker	An individual or organization that brings together mortgage lenders and borrowers.
Loan servicer	An organization that handles the day-to-day management (i.e., collecting, billing, and record keeping) of your loan.
Real estate agents, brokers & Realtors	Trained professionals who are licensed to negotiate the sale and purchase of real estate.
Home seller	The property owner who puts a home up for sale.
Home inspector	An individual who provides a trained, professional opinion of the physical condition of a home and its components and systems.
Home appraiser	An individual who provides a trained, professional opinion of the market value of a home.
Insurance agent	A financial professional who provides protection against the risk of monetary loss.
Title company	A company that examines public records to determine that rights to a property can legally be transferred from one owner to another.

Please note that in some of the different legal documents that are part of the purchasing process, you may be referred to as the *Grantee*, or the *Mortgagor*. The home seller may be referred to as the *Grantor*, and your mortgage lender may be called the *Mortgagee*. Although the names may be different, the roles remain the same in each case.

"In any great undertaking, it is not enough for a man to depend simply upon himself"

-Native America proverb

What are the responsibilities of each individual?

The ***loan officer*** will determine if you qualify for a mortgage loan. You'll have to provide personal financial information, but the result will make your home search easier. The loan officer also can help you get pre-approved for the actual loan by gathering more financial information and examining your credit report. A pre-approval is a written commitment from a lender to grant a mortgage loan based on the value of the house you intend to buy. You'll have to pay a fee for this service, but pre-approval encourages real estate agents and home sellers to see you as a serious shopper. If negative information shows up on your credit report, the loan officer can tell you what you must do to correct it. If your loan is not approved, the loan officer can tell you what you should do to repair your credit score so you can qualify for a loan in the future. Although loan officers work closely with you to get a loan approved, remember that they work for lenders who pay them to determine that you can and will repay your loan.

The ***mortgage lender*** provides money to individuals who want to buy real estate. Your lender could represent a commercial bank, savings and loan institution, credit union, or other type of financial institution. The lender's primary goal is to earn money by charging interest on your loan. To do this, the lender will rely on the judgment of the loan officer that you can and will repay your loan. If you fail to repay the loan according to the terms of your loan agreement, your lender is entitled to take possession of your home and resell it.

A ***mortgage broker*** represents several lenders and earns a fee by matching an available lender with a qualified borrower. To maintain good relationships with mortgage lenders, the broker must be assured borrowers are likely and able to repay any loans that are arranged.

A ***loan servicer*** may be the lender who makes a loan, a financial professional hired by the lender to manage a loan, or an independent agency that buys loans from the original lenders. If your property taxes and hazard insurance are included in your monthly mortgage payment, your loan servicer will set up a special account to handle these payments for you. In addition, the servicer will notify you at year's end of the total amount of interest you paid during that year. Federal law requires your loan servicer to answer any questions you may have about your loan. Once a mortgage loan is made, it may be sold to different loan servicers many times. Although the mailing address for your monthly payments may change, loan terms such as the due dates, length of the repayment period and the original amount of the loan cannot be changed. Federal law requires both the old and new loan servicers to notify you in writing before any change occurs. They are required tell you the name, address, and telephone number of the new loan servicer.

The ***real estate agent*** is a business professional who will show you homes assist you in negotiating a purchase price and guide you through the legal requirements for completing your purchase. You'll find two different types of agents: a buyer's agent and a seller's agent. The ***buyer's agent*** works for you to locate the most appropriate home and negotiate the lowest possible price. The ***seller's agent*** works for the seller to make a sale as quickly as possible for the highest possible price. Individual agents work for a *real estate broker*. *Realtors* are members of the National Association of Realtors and state or local realtors associations. These organizations set codes of ethics and performance standards and provide continuing education for professionals in the real estate industry. Agents, brokers and realtors can assist you in prequalifying for a mortgage loan. Similar to a lender, they will ask for detailed personal financial information to estimate how much you can borrow; how much you can afford in monthly mortgage payments; and if you have credit problems that must be solved before you apply for a loan. They can also recommend lenders who will likely approve your loan request. These real estate professionals often use a multiple listing service of homes for sale in your area to quickly identify homes that meet your needs and financial situation. The ***home seller*** owns a property such as a house, townhouse, condo, or other type of housing that is for sale. The seller's goal is to get the best possible price as quickly as possible for the property. The seller may be an individual, a family, a financial institution, a homebuilder, a housing development company, or even a government agency. Usually, the seller will employ an agent to show the property to prospective homebuyers. Sometimes an individual owner acting alone will advertise a property as "For Sale By Owner" or FSBO. By handling the sales themselves, owners can avoid paying the 3-6 % real estate agent's commission.

As a buyer, your major concern with a property being sold by an owner is to make sure the home is not overpriced. Hire a buyer's agent who can perform a comparative analysis of recent similar home sales and make sure the FSBO sale procedures and contract terms comply with all applicable laws and regulations.

"We know a subject ourselves or we know where we can find information on it"

-Samuel Johnson

A ***home inspector*** will make a detailed physical inspection of any home you want to buy. Whenever you make an offer to purchase a home, your written offer should be contingent on the results of a complete home inspection by an independent expert. You pay for the service, so the inspector works directly for you. The inspector will examine the home's construction including its major systems such as electrical, plumbing and heating and cooling. The inspector will also examine the property's structural components such as roof, walls, floors, doors and windows. Based on this examination, the inspector will give you a comprehensive report on the condition of the house. When you hire an inspector, ask for this report to be in writing and arrange to be at the home during the inspection. By accompanying the inspector, you'll be able to ask questions about construction, maintenance, and upkeep of the home. You also may get some useful guidance on any replacements or repairs the home may need. If the inspection uncovers problems that will require costly repairs, you may want to decrease the amount of your offer, have the seller correct the problem - or cancel it entirely.

A ***home appraiser*** is an individual hired by your lender to determine the current market value of a home. The appraiser's opinion may be based on several factors including:

- ***Market value*** - A comparison of the home with similar homes in the area that have recently been sold.
- ***Cost*** - A calculation of the value of the land, plus the cost of building the home and making other improvements, minus depreciation of the home and other improvements.
- ***Income*** - An estimate of rental income that the property can produce.

The appraiser will consider the home's size and general condition, as well as the general condition of the surrounding neighborhood, before looking at home sales in the area. The appraiser's report to the lender will summarize all this information and set a price for the property. In most cases, you will pay for the appraisal as part of your closing costs, so ask for a copy of the report for future comparison.

Different ***insurance agents*** will be involved to protect different interests. Your lender will need protection against risks to the collateral, associated with your timely repayment of the loan. You will need protection against risks to your new home and its contents, your ability to repay the loan, and any claims against your ownership of the property. You, the homebuyer, will pay for all of this. Insurance for your lender will be included in your monthly mortgage payments. The price of title insurance will be included in your closing costs and you'll purchase and pay for your own insurance.

Individuals you'll probably never meet work for the ***title company***. The title company is responsible for providing the following services:

- Provide a legal description of the property.
- Identify the legal owner of the property.
- Identify any encumbrances, or "clouds," which are defects in past changes of ownership on the property.

The legal description may require a survey to determine the precise location and boundaries of the property. The legal owner is the person, or group of persons, named on a deed that has been recorded by the local government. Examples of possible encumbrances include liens such as unpaid property taxes, mortgage loans, or court judgments the owner must pay before the property can be sold. Additionally, restrictions on the use of the property such as a historic or wetland designation affecting, how you can build or remodel on the property and easements such as roads or rights-of-way that guarantee other people will have access to the property are also investigated by the title company. Moreover, "clouds," or defects are possible claims that people besides the seller such as a former spouse, heirs to an estate that has not yet been settled may be discovered during a title search. Once again, your written purchase offer should contain a contingency to cancel if the title cannot be transferred quickly.

A good way to remember your contact with different business professionals is to keep a log of meetings and telephone calls. This sample address book shows how you can write brief notes about the date, place, and purpose of each contact.

Table 7-2: Sample Home Buyer's Address Book Page

Date	I talked with…	Address and Phone	What we discussed…	We'll talk next on…
Feb 1	Ms. H. Penny, Loan officer	Free State Bank 202-555-8888	Mortgage loan pre-application	Feb 8
Feb 8	Ms. H. Penny	Same as above	My credit report data	Feb 12
Feb 10	Jack Black, Real estate broker	123 Pine Street 202-555-9999	Search for 3-bedroom home	No more meetings
Feb 10	L.B. Blue, Real estate agent	456 Ash Lane 202-555-7777	Search for 3-bedroom home	No more meetings
Feb 11	L.M. Sunshine, Real estate agent	789 Mulberry Street 202-555-6666	Search for 3-bedroom home in Blueberry Hill/Eden Village	Feb 16

Use the worksheet that follows for your own log of real estate contacts.

Table 7-3: Real Estate Contact Log Sheet

Date	I spoke with…	Address & phone number	What we discussed…	We'll talk next on…

"Never buy through your ears but through your eyes"

-Irish Proverb

What information does each require from you?

Your ***loan officer*** will require honest, provable information on the employment history, income, expenses, debts, and credit history of you and your co-purchaser, if there will be. You'll be asked to provide the following information:

- Income - Pay stubs, W-2 forms, and past tax returns.
- Savings - Bank account numbers and bank statements.
- Debts - Names of all your creditors and credit account numbers.
- Housing expenses - Canceled checks or money order receipts for rent or mortgage payments.
- Down payment & closing costs - The amount and source of funds.

If questionable or negative information shows up in any of these areas, you'll be asked for additional information and explanations before your loan application can be approved.

When you've found the house you want, your loan officer will ask for a copy of your final purchase offer.

A ***mortgage lender*** working through your loan officer will ask you for the following information:

- ***Capacity*** to repay the debt, based on your earnings and employment history, expenses, number of dependents and other obligations you have.
- ***Credit history*** of how much you owe, how often you borrow, if you pay your bills on time, and if you're living within your means.
- ***Capital*** or the amount of cash you have for a down payment and settlement costs, as well as cash reserves to deal with repair or replacement expenses that may arise after you're in the home.
- ***Collateral*** to protect the lender's investment if you can't repay your loan. The home you buy must be worth enough to back up your loan.

The lender will also want to know that the amount of your loan request does not exceed the value of the home you intend to buy. You or the lender will hire an appraiser - at your expense - to provide an objective, professional opinion on the proper price of the home. The cost of the appraiser's service will be included in the items you'll pay for at closing.

The interests of the ***mortgage broker*** are the same as your loan officer and lender. More than likely, these three will share all information you provide to any one of them.

Your ***loan servicer*** will stay in touch with you from the moment you accept your loan until the day you make your final payment. You should provide your loan servicer with any information that concerns your ability to repay your debt such as a reduction in income or loss of a job as soon as possible. You must also inform your loan servicer when you're ready to resell the property and pay off the balance due on the loan.

Basically, all you'll have to tell the ***home inspector*** and the ***home appraiser*** is the location of the home and when it will be available for inspection. From there, you will be getting more information than you'll have to give.

Important information for the ***insurance agent*** will include the price, location, size, age and construction materials of the home. With this data, the insurance agent will issue hazard insurance and homeowner's policies. Your insurer will also need to have a list of any possessions you intend to insure, along with their condition, cost and possible replacement cost. This information should be updated annually to keep your policy current.

Depending on the size of your down payment, you may be required to pay for mortgage insurance. You'll pay for it as part of your monthly mortgage payments, but it will cover your lender's investment in case you fail to repay the loan.

The ***title company,*** like the inspector and the appraiser, will need to know the address of the property you intend to purchase. With that information, the title company will complete a search of legal records and provide information to you.

> ***"Success is simple. Do what's right, the right way, at the right time."***
> ***-Arnold Glasgow***

What questions should you ask of each of these individuals?
Your ***loan officer,*** as your probable point of contact with the ***mortgage broker*** or ***mortgage lender***, will be the most likely source of information about the type and terms of the loan you'll need. Once you describe your household's general financial situation, be ready to take notes and ask the loan officer the following questions:

- Pros and cons of fixed rate, ARM, or balloon mortgage loans.
- For ARMs and balloons, rate and payment caps and adjustment dates.
- How interest rates are calculated for ARMs.
- Converting an ARM to a fixed-rate loan.
- Conventional or government-backed loans.
- Loan approval time.
- Interest rates and annual percentage rates (APRs).
- Locking in the interest rate.
- Loan processing fees and points.
- Closing costs.
- Down payment requirements.
- Private mortgage insurance (PMI).
- Escrow accounts for taxes and insurance.
- Loan terms (repayment periods).
- Prepayment penalties or balloon payments.
- Selling your loan on the secondary market.
- Selling your loan to another servicer.

If you're aware of blemishes on your credit history, ask how to clear them up. If your real estate agent or homebuilder recommends a certain lender, you don't have to accept that lender's terms if you can qualify for a better deal elsewhere. Talk to more than one loan officer, take careful notes, compare fees, terms and conditions, then choose the loan that suits you best.

You should ask your real estate agent the following questions:

- Will you be working to get a low price for me or a high price for the seller?
- Do you use a multiple listing service (MLS) to identify homes for sale?
- How many homes can you show me that meet my list of needs and wants?
- What can you tell me about the neighborhoods you show me?
- What construction projects (roads, schools, etc.) are planned for the area?
- Are more homes being built in the area?
- What can you tell me about government-supported homebuyer assistance programs?
- Can you pre-qualify me for a mortgage loan and determine a good price range for me?
- What commission do you charge? Who pays it - the seller or me?
- Will you work with me personally or turn me over to an assistant?
- Can you help me identify a mortgage lender or mortgage broker?
- Can you help me identify a good, professional home inspector?
- How will you help me during negotiations with a home seller?

Your questions for the ***home seller*** should focus not only on price, but also on the condition and maintenance of the home. Except in FSBO sales, you'll deal with the seller's agent, not the homeowner, but you should expect prompt, complete answers to all your questions.

If you're interested in an older home, you'll need to know how much you can reasonably expect to spend while living there. Ask to see maintenance records, past utility bills and past property tax bills. Your state laws may require sellers to disclose information on known defects that could affect the cost or living conditions of the home. If not, be sure to ask about potential hazards such as radon, asbestos and lead paint, as well as past problems with leaks, fires, mold, etc. If the home was built between 2004 and 2009, you may consider having it tested for "Chinese drywall," a tainted drywall that compromises air quality, pipes and electrical wiring, and appliances.

If you're buying a newly built home, ask about the availability of a homeowner's warranty and find out what it covers. Find out what guarantees the builder offers to repair construction defects that appear after you've moved in. If your home is being constructed as part of a new housing development, ask about everything that's not completed, from the landscaping to street paving to the community pool and tennis courts, to find out when they will be completed - and what you can do if they aren't finished on time.

A ***home inspector*** can be one of the most valuable contacts you'll ever meet when purchasing a home. So, what do you ask when interviewing possible candidates for the job of inspecting your future home? You can start with the following questions and add others:

- Are you a member of a home inspection association? American Society of Home Inspectors, National Association of Home Inspectors, Society of Professional Real Estate Inspectors, or others?
- What kind of formal training have you had?
- Are you licensed, bonded, and insured to perform inspections in my state?
- When can you do the inspection?
- What home systems and components are included in your inspection?
- Can you test for radon and termites? If not, can you recommend someone?
- Can you test the sewage system (for septic tanks) and water quality?
- What about lead paint and asbestos (for older homes)?
- How long will the inspection take?
- Will you provide a written inspection report? When will I get it?
- How much will the inspection cost?
- Do you test for mold and mildew?

Keep sight of the fact that the home inspector will *not* give you any guarantees. The inspection is basically a visual examination; it does not include destruction of any part of the home to uncover hidden problems.
Therefore, even the most complete inspection may not bring some serious faults to light. Is a home inspection still worth the cost? Certainly. The information it provides can help you make reasonable decisions on several of the following important questions:

- Should you buy the home?
- How high - or low - should your purchase offer be?
- What kind of maintenance expenses can you expect?

If the ***home appraiser*** says that a home's market value is much lower than the sales price, you should be concerned. You should not pay more for a home than what it is worth, as determined by an appraisal. Secondly, a lender will not want to grant a mortgage loan for more than the home is worth. If this happens to you, try to renegotiate the price based on the appraisal.

Of course, if the appraiser says the home is worth a little more than the seller is asking, your lender will probably be happy to issue you a loan.

Your questions for the ***insurance agent*** will revolve around the type of coverage you need and what the insurance policy will cover. If you have a low down payment mortgage loan, each of your monthly payments will include a sum to cover mortgage insurance, but this protects your lender, not you. You will need your own insurance to protect you against the risk of losing your home and possessions.

There are three types of homeowners insurance available for your home and possessions:

- ***Cash value*** - This pays you the replacement value of your damaged property, minus an allowance for wear-and-tear (depreciation).
- ***Replacement cost*** - This pays you the replacement value, with no deduction for depreciation, but it will be limited to a dollar amount set by the insurer.
- ***Guaranteed replacement cost*** - This pays you the replacement value, with no allowance for depreciation, and no pre-set dollar limit.

Unless you ask for replacement cost, your policy will be for cash value only. You should consider purchasing guaranteed replacement cost insurance if it's available in your state, or basic replacement cost insurance. Even though these policies are more expensive than plain cash value insurance, they will protect you from depreciation, inflation, and increases in construction costs. If you have extremely valuable items in your home computer equipment, furs, jewelry, etc.), ask about getting additional coverage for those items.

Depending on where your home is located, ask about flood insurance or earthquake insurance. Also ask about:

- Discounts for insuring your home and car with the same company.
- Discounts for safety devices (burglar and smoke alarms, and sprinkler systems or fire extinguishers).
- Discounts for paying higher deductibles.

Shop around, compare prices, compare coverage, and then choose carefully so you'll pay the least amount for the most coverage.

If the title is clear and has no defects, you shouldn't have any questions for the title company. If there are problems with the title, you'll need to know what should be done to clear the title and how long the process will take. If you'll need considerable time and expense to clear the title, you may want to cancel your offer and look for another home.

Summary

Different business professionals are responsible for different aspects of a home sale.

- Not everybody in the process will represent your financial interests.
- Be prepared to provide detailed personal information to your lender.
- Be prepared to ask detailed questions of your lender, the home seller, the home inspector, and many others.