

HOMEBUYER'S GUIDE



KW GREATER SEATTLE
KELLERWILLIAMS. REALTY

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WHY OWN A HOME?



1. TAX BENEFITS

The U.S. Tax Code lets you deduct the interest you pay on your mortgage, your property taxes, and some of the costs involved in buying a home.

2. APPRECIATION.

Historically, real estate has had a long-term, stable growth in value. In fact, median single-family existing-home sale prices have increased on average 5.2 percent each year from 1972 through 2014, according to the National Association of REALTORS®. The recent housing crisis has caused some to question the long-term value of real estate, but even in the most recent 10 years, which included quite a few very bad years for housing, values are still up 7.0 percent on a cumulative basis. In addition, the number of U.S. households is expected to rise 10 to 15 percent over the next decade, creating continued high demand for housing.

3. EQUITY.

Money paid for rent is money that you'll never see again, but mortgage payments let you build equity ownership interest in your home.

4. SAVINGS.

Building equity in your home is a ready-made savings plan. And when you sell, you can generally take up to \$250,000 (\$500,000 for a married couple) as gain without owing any federal income tax.

5. PREDICTABILITY.

Unlike rent, your fixed-rate mortgage payments don't rise over the years so your housing costs may actually decline as you own the home longer. However, keep in mind that property taxes and insurance costs will likely increase.

6. FREEDOM.

The home is yours. You can decorate any way you want and choose the types of upgrades and new amenities that appeal to your lifestyle.

7. STABILITY.

Remaining in one neighborhood for several years allows you and your family time to build long-lasting relationships within the community. It also offers children the benefit of educational and social continuity.

WHY WORK WITH A REALTOR® ?

It's hard to argue with all of the quality traits experienced real estate agents bring to the table for their clients: savvy negotiating skills, a rich understanding of the local housing landscape, legal knowledge, and in-depth advice for home buyers on how to approach the entire process.

Here's exactly what you can (and should) expect when hiring a real estate agent ...

1. ETHICAL TREATMENT.

Every REALTOR® must adhere to a strict code of ethics, which is based on professionalism and protection of the public. As a REALTOR®'s client, you can expect honest and ethical treatment in all transaction-related matters. The first obligation is to you, the client.

2. AN EXPERT GUIDE.

Buying a home usually requires dozens of forms, reports, disclosures, and other technical documents. A knowledgeable expert will help you prepare the best deal, and avoid delays or costly mistakes. Also, there's a lot of jargon involved, so you want to work with a professional who can speak the language.

3. OBJECTIVE INFORMATION AND OPINIONS.

REALTORS® can provide local information on utilities, zoning, schools, and more. They also have objective information about each property. REALTORS® can use that data to help you determine if the property has what you need. By understanding both your needs and search area, they can also point out neighborhoods you don't know much about but that might suit your needs better than you'd thought.

4. EXPANDED SEARCH POWER.

Sometimes properties are available but not actively advertised. A REALTOR® can help you find opportunities not listed on home search sites and can help you avoid out-of-date listings that might be showing up as available online but are no longer on the market.

5. NEGOTIATION KNOWLEDGE.

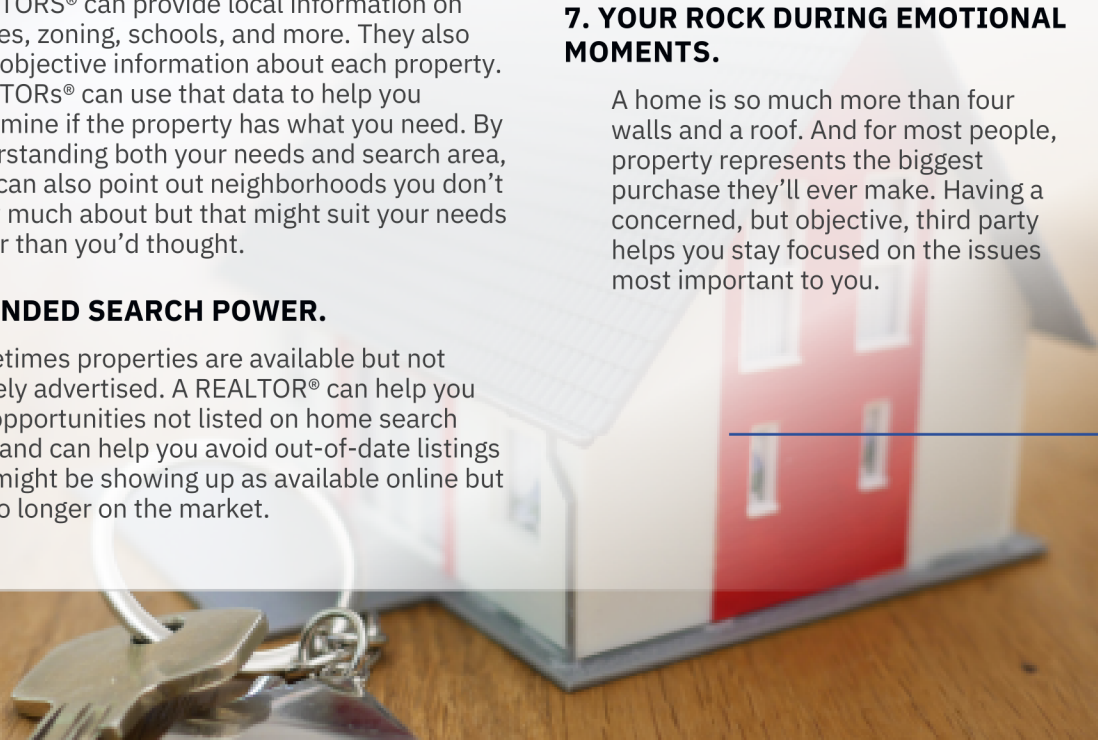
There are many factors up for discussion in a deal. A REALTOR® will look at every angle from your perspective, including crafting a purchase agreement that allows enough time for you to complete inspections and investigations of the property before you are bound to complete the purchase.

6. UP-TO-DATE EXPERIENCE.

Most people buy only a few homes in their lifetime, usually with quite a few years in between each purchase. Even if you've done it before, laws and regulations change. REALTORS® handle hundreds of transactions over the course of their career.

7. YOUR ROCK DURING EMOTIONAL MOMENTS.

A home is so much more than four walls and a roof. And for most people, property represents the biggest purchase they'll ever make. Having a concerned, but objective, third party helps you stay focused on the issues most important to you.



THE HOME BUYING PROCESS



PREPARATION/ ATTRACTING BUYERS



Sign Buyer Agency Agreement



Consultation
Your wants/needs



Apply for Pre-Approval
with Lender



Home
Search



CONTRACT/ NEGOTIATION



Appraisal



Inspection/
Potential Repairs



Negotiate Terms/
Get Mutual Acceptance



Make Offer



ROAD TO CLOSING



Clear Title



Final
Walk-through



Final Loan
Approval



Final Signing
Record Deed



Receive Keys



PREPARATION

BEFORE BUYING: PREPARING TO FINANCE

- Develop a budget
- Reduce debt
- Increase your income
- Save for a down payment
- Keep your job
- Establish a good credit history
- Keep saving
- Decide what kind of mortgage you can afford
- Plan for your down payment and seek help if needed



READY TO START LOOKING: PREPARING TO SHOP

- Know that there's no "right" time to buy.
- Partner with your Real Estate Agent
- Plan ahead. Talk to mortgage brokers for pre-approval so you know what you can afford.
- Factor maintenance and repair costs into your buying budget.
- Accept that no house is ever perfect.
- Remember your home doesn't exist in a vacuum.
- Choose a home first because you love it; then think about appreciation.
- Be ready to move.



DEFINING YOUR DREAM HOME

Write in your preferences and rate them: 3 = Vital, 2 = Very Important, 1 = Neutral, 0 = Not important

LOCATION	PREFERENCES	RATE
Neighborhood		
School district		
Near public transportation		
Near airport		
Near expressway		
Near shopping		
Great views		
TYPE		
Single-family / condo / townhome		
Minimum / maximum property age		
Willingness to renovate		
Architectural style		
Open floor plan		
SIZE & MAKEUP		
Minimum # of bedrooms		
Minimum # of bathrooms		
Eat-in kitchen		
Family room		
Formal dining room		
Formal living room		
Garage (number of cars)		
Outdoor space (size/use)		
Laundry room		
AMENITIES		
Wood floors / carpeting		
Heating / cooling system types		
Fireplace		
Pool		
Other special needs/preferences:		

ABOUT LOANS | LENDERS | FINANCING

TYPES OF LOANS

TRADITIONAL/CONVENTIONAL

Backed by Private Lenders/ Non-Government Entities like banks, credit unions, and mortgage companies

NON-TRADITIONAL/EXOTIC

Often with low initial payments that increase over time

Common to the run-up to the housing crisis

Sometimes these Balloon loans can be beneficial if you think you might sell your home at a large profit a few years after you buy it, before the rate hikes up and the balloon payment is due.

GOVERNMENT-BACKED LOANS

Sponsored by agencies such as the Federal Housing Administration or the Department of Veterans Affairs

They offer special terms, including reduced interest rates to qualified buyers.

LENDERS

A lender/mortgage broker is an independent professional who acts as an intermediary between you and lending institutions.

I have lenders I trust who I can recommend to you.

LENDING TERMS

Mortgages are generally available at 15-, 20-, or 30-year terms. In general, the longer the term, the lower the monthly payment. However, shorter terms mean you pay less interest over the life of the loan.

FIXED VS. ADJUSTABLE INTEREST RATES

A FIXED RATE allows you to lock in a low interest rate as long as you hold the mortgage and, in general, is a good choice if interest rates are low.

AN ADJUSTABLE-RATE MORTGAGE (ARM) usually offers a lower rate that will rise as market rates increase. ARMs usually have a limit as to how much and how frequently the interest rate can be increased. These types of mortgages are a good choice when fixed interest rates are high or if you expect your income to grow significantly in the coming years.



What is Cost to Buy?

Earnest Money

1% of purchase price. Down payment made as evidence of good faith.

Inspection Cost

Appraisal Cost

600-800



ABOUT HOME INSPECTION

Once you are in contract the home needs to be inspected by a licensed inspector. Skilled home inspectors find issues that escape the buyer's (and hopefully also the seller's) attention. Common issues uncovered by inspectors include bad electrical wiring, drainage issues, mold and other hazardous building or insulation materials, and roofing in need of replacement.

KEY INSPECTION AREAS

1. STRUCTURE
2. EXTERIOR
3. ROOFING
4. PLUMBING
5. ELECTRICAL
6. HEATING AND AIR CONDITIONING
7. INTERIORS
8. VENTILATION/INSULATION
9. FIREPLACES



HOME HAZARDS THAT INSPECTORS WILL LOOK FOR

RADON

Basements or any area with protrusions into the ground offer entry points for radon. The Environmental Protection Agency publishes a map of high-prevalence areas. A radon test can determine if high levels are present.

ASBESTOS

Homes built prior to 1985 are at risk of having asbestos in their construction materials. Home owners should be careful when remodeling because disturbing insulation and other materials may cause the asbestos to become airborne.

LEAD

Homes built prior to 1978 may have lead present. Look for peeling paint and check old pipes. To get a HUD-insured loan, buyers must show a certificate that their older home is lead-safe.

OTHER HAZARDOUS PRODUCTS

When present these products are often located in corners, crawl spaces, garages, or garden sheds in the home. If these products are found, make sure you ask for their removal and get a disposal certificate prior to closing.

GROUNDWATER CONTAMINATION

Homes near light industrial areas or facilities may be at risk, as are areas once used for industry that are now residential.

ABOUT APPRAISALS

Once you are under contract, your lender will send out an appraiser to make sure the purchase price is in line with the property's value.

Appraisals help guide mortgage terms.

The appraised value of a home is an important factor in the loan underwriting process. Although lenders may use the sale price to determine the amount of the mortgage they will offer, they generally only do so when the property is sold for less than the appraisal amount. Also, the loan-to-value ratio is based on the appraised value and helps lenders figure out how much money may be borrowed to purchase the property and under what terms. If the LTV is high, the lender is more likely to require the borrower to purchase private mortgage insurance.

Appraised value is not a concrete number.

Appraisals provide a professional opinion of value, but they aren't an exact science. Appraisals may differ quite a bit depending on when they're done and who's doing them. Also, changes in market conditions can dramatically alter appraised value.



Appraised value doesn't represent the whole picture of home prices.

There are special considerations that appraised value doesn't take into account, such as the need to sell rapidly.

Appraisers use data from the recent past.

Appraisals are often considered somewhat backward looking, because they use sold data from comparable properties (often nicknamed "comps") to help come up with a reasonable price.

There are uses for appraised value outside of the purchase process.

For buying purposes, appraisals are usually used to determine market value or factor into the pricing equation. But other appraisals are used to determine insurance value, replacement value, and assessed value for property tax purposes.

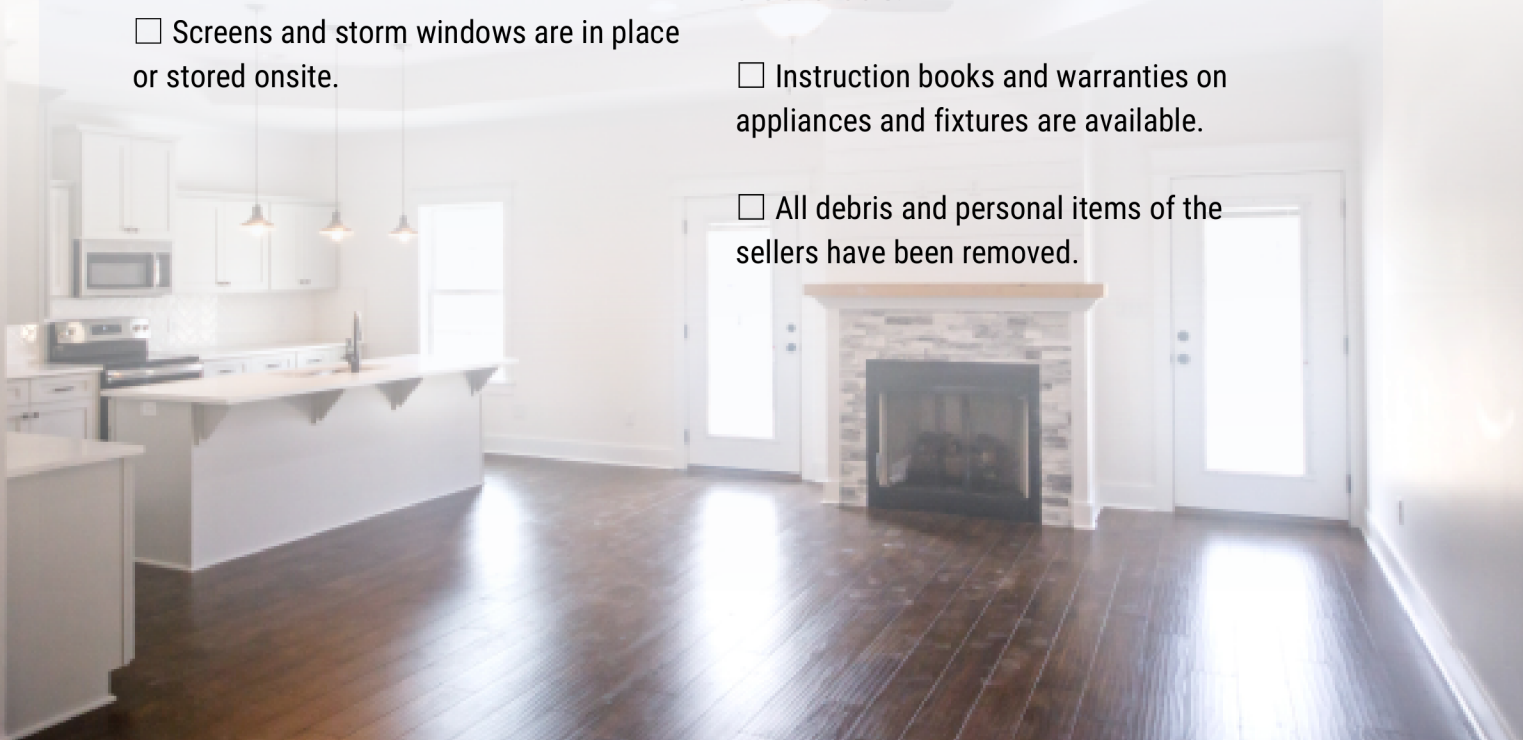
ABOUT THE FINAL WALK-THROUGH

Closing time is hectic, but you should always make time for a final walk-through to make sure that your home is in the same condition you expected it would be.

CHECKLIST

Here's a detailed list of what to check for on your final walk-through.

- Basement, attic, and every room, closet, and crawl space have been checked.
- Requested repairs have been made.
- Copies of paid bills and warranties are in hand.
- No major, unexpected changes have been made to the property since last viewed.
- All items included in the sale price—draperies, lighting fixtures, etc.—are still on site.
- Screens and storm windows are in place or stored onsite.
- All appliances are operating (dishwasher, washer/dryer, oven, etc.)
- Intercom, doorbell, and alarm are operational.
- Hot water heater is working.
- Heating and air conditioning systems are working.
- No plants or shrubs have been removed from the yard.
- Garage door opener and other remotes are available.
- Instruction books and warranties on appliances and fixtures are available.
- All debris and personal items of the sellers have been removed.



ABOUT PROPERTY TAX

It's natural for the sale price of a home to loom large in your mind. But don't forget to look at what your property tax bill might be. Property tax is based on assessed value and assessed value is generally less than market value. A recent copy of the seller's tax bill will help you determine this information.

Some questions to consider affecting property tax:

How often are properties reassessed in this area?

In general, this will happen annually, but properties in areas of slower growth may be reassessed less often.

When was the last reassessment done on this property?

Most significant tax increases on an individual property can be linked to when that property was last reassessed.

Will the sale of the property trigger a tax increase?

Depending upon where you live, the assessed value of a property may increase based on the amount you pay for it. And in some areas, such as California, taxes aren't allowed to increase until the property in question is resold.

Is the tax bill comparable to other properties in the area?

If not, it might be possible to appeal the assessment and lower the rate.

Does the current tax bill reflect any special exemptions for which I might not qualify?

For example, many tax districts offer reductions to those individuals 65 and older.

HOME OWNER'S INSURANCE

A homeowners insurance policy will protect you against certain losses and damage to your new home and is generally required by lenders prior to closing. If your home is destroyed, you'll receive money to replace it only to the maximum of your coverage, so be sure your insurance is sufficient. This means that if your home is insured for \$150,000 and it costs \$180,000 to replace it, you'll still receive only \$150,000. Also worth noting, Most insurance policies do not cover flood or earthquake damage as a standard item. You may need to buy these types of coverage separately.

TITLE INSURANCE

Title insurance protects your ownership right to your home, both from fraudulent claims against your ownership and from mistakes made in earlier sales, such as misspellings of a person's name or an inaccurate description of the property. **Your mortgage lender will require it.** Title insurance protects the lender (and the secondary markets to which they sell loans) from defects in the title to your home. The fee is typically a one-time payment rolled into closing costs.

CHECKLIST

FOR BECOMING A NEW OWNER

Before the property changes hands, consult this list to make sure these items are transferred with the house.

- Owner's manuals and warranties for any appliances left in the house.
- Garage door opener(s).
- Extra set of house keys.
- Other keys. Think beyond the front doors; do you have any cabinets or lockers built into the home that require keys?
- A list of local service providers, such as the best dry cleaner, yard service, plumber, and so on. You're not just helping the new owners, but also the local businesses you're leaving behind.
- Code to the security alarm and phone number of the monitoring service if not discontinued.
- Smart home device access. Any devices listed as fixtures need to be reset for the new homeowner. Make sure your account information and usage data are wiped from the device so that they may use it. Check with your device's manufacture to find out how to do this.
- Numbers to the local utility companies. This can be especially helpful to owners who may not yet have easy access to the Internet in the new home.
- Contact info for the condo board or home ownership association, if applicable.

GLOSSARY

Amendments

A change—either to alter, add to, or correct—part of an agreement without changing the principal idea or essence.

Appraisal

An estimate of value of property resulting from analysis of facts about the property; an opinion of value.

Assumption

Taking over another person's financial obligation; taking title to a parcel of real property with the Buyer assuming liability for paying an existing note secured by a deed of trust against the real property.

Beneficiary

The recipient of benefits, often from a deed of trust; usually the lender.

Close of Escrow

Generally the date the documents are recorded and title passes from Seller to Buyer. On this date, the Buyer becomes the legal owner, and title insurance becomes effective.

Comparable Sales

Sales that have similar characteristics as the subject real property, used for analysis in the appraisal. Commonly called “comps.”

Deed of Trust

An instrument used in many states in place of a mortgage.

Deed Restrictions

Limitations in the deed to a parcel of real property that dictate certain uses that may or may not be made of the real property.

Earnest Money Deposit

Down payment made by a purchaser of real property as evidence of good faith; a deposit or partial payment.

Easement

A right, privilege or interest limited to a specific purpose that one party has in the land of another.

Hazard Insurance

Real estate insurance protecting against fire, some natural causes, vandalism, etc., depending upon the policy. Buyer often adds liability insurance and extended coverage for personal property.

Impounds

A trust type of account established by lenders for the accumulation of borrower's funds to meet periodic payments of taxes, mortgage insurance premiums and/or future insurance policy premiums, required to protect their security.

Legal Description

A description of land recognized by law, based on government surveys, spelling out the exact boundaries of the entire parcel of land. It should so thoroughly identify a parcel of land that it cannot be confused with any other.

Lien

A form of encumbrance that usually makes a specific parcel of real property the security for the payment of a debt or discharge of an obligation. For example, judgments, taxes, mortgages, deeds of trust.

Mortgage

The instrument by which real property is pledged as security for repayment of a loan.

Power of Attorney

A written instrument whereby a principal gives authority to an agent. The agent acting under such a grant is sometimes called an “Attorney-in-Fact.”

Purchase Agreement

The purchase contract between the Buyer and Seller. It is usually completed by the real estate agent and signed by the Buyer and Seller.

Recording

Filing documents affecting real property with the County Recorder as a matter of public record.

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