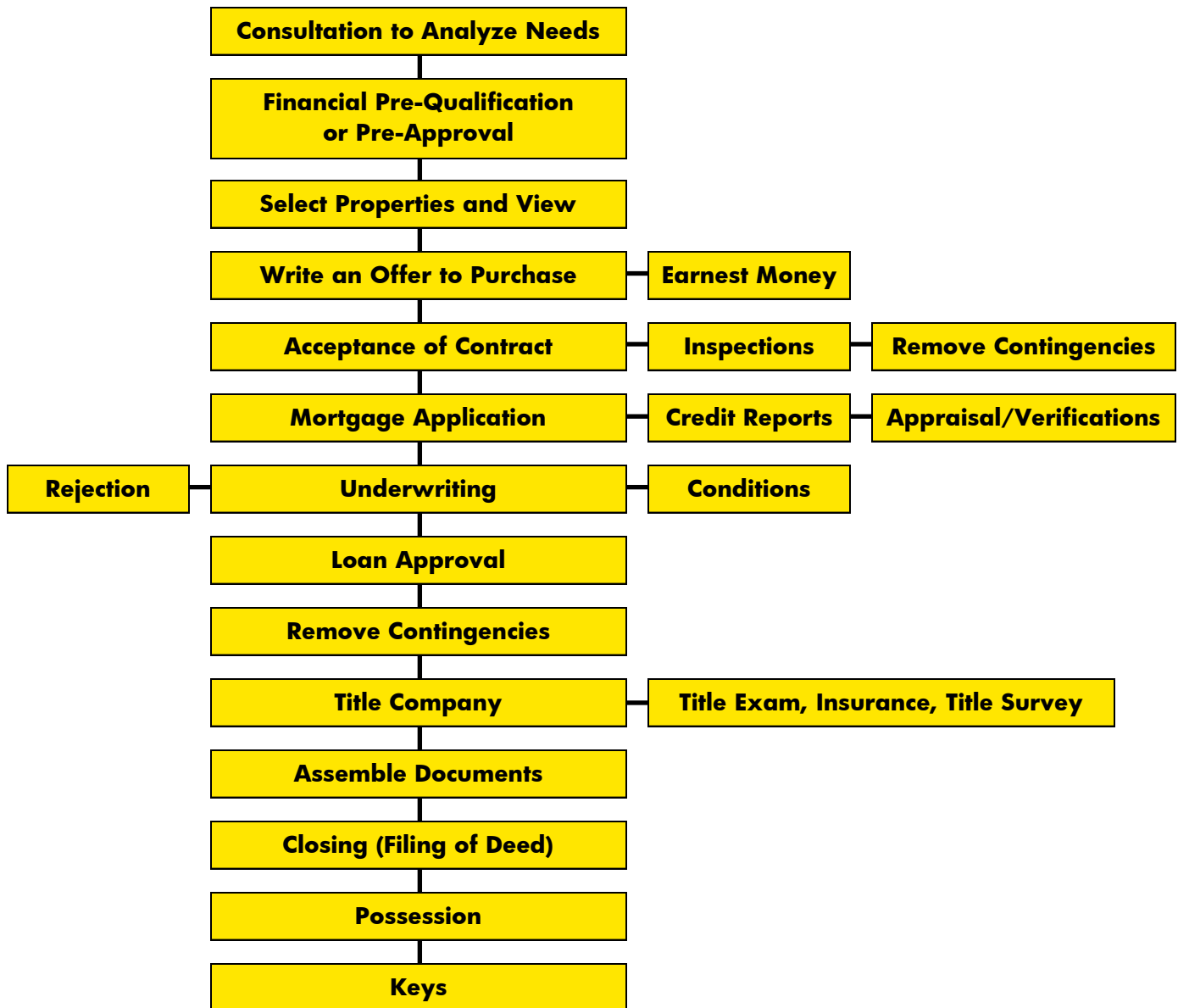




## HOME BUYING PROCESS CHART

Here is a simple flow chart to explain the steps involved in the home buying process.





## CAN YOU AFFORD A HOME?

### Financing

Purchasing a home is one of the most important and rewarding decisions a person can make, which also means it's one of the most stressful! With all of the steps, money, and people involved it is easy to be overwhelmed.

### Can you afford a home?

Rule of thumb: You can afford a home that costs about 2 1/2 times your yearly income. Some other factors that will determine how much you can afford:

- How much money do you need for other bills?  
Be sure to include utilities, doctors, groceries, car payments, etc.
- How much do you have for a down payment?  
The typical minimum down payment is 3% of the loan amount. Some special financing programs have lower down payment requirements.  
Down payments can also be from funds given to you by family or friends.
- How much will you need for closing costs and other payments?  
Be prepared to get out your checkbook. There are several costs—along with the down payment—that will arise, such as earnest money, inspection and appraisal fees, and insurance binders.

### Qualifying for a loan

Do not confuse loan qualification with loan approval. Even before you begin looking for a home, meet with a lender to determine how much you qualify for. Keep in mind that prequalifying with a lender does not bind you to that lender. Do not sign any paperwork that would obligate you to that lender at this point.

### Loan Qualification

#### Estimate your maximum home payment

Gross Monthly Income: ..... \_\_\_\_\_

Multiple by .28 for a conventional loan or ..... \_\_\_\_\_

Multiple by .29 for an FHA Loan ..... \_\_\_\_\_

The number you come up with is your maximum monthly home payment.

#### Estimate your maximum long-term debt payment allowed by a lender

Gross Monthly Income: ..... \_\_\_\_\_

Multiple by .36 for a conventional loan or ..... \_\_\_\_\_

Multiple by .41 for an FHA Loan ..... \_\_\_\_\_

This is the maximum total monthly debt payment a lender will allow, including housing.

*Original source: the Minnesota Association of REALTORS*



## THE LOAN PROCESS

Just as there are several types of credit and financial situations, there are several different types of loan situations. Here's a look at some of the various types of loans and the advantages and disadvantages of each. This should help you to determine the loan that is best-suited for you.

### **Fixed Rate vs. Adjustable Rate Mortgage (ARM)**

Just as their name imply, a fixed rate mortgage is a mortgage that locks you into one rate for the entire duration of the loan. Adjustable rate mortgages, or ARMs, will adjust according to an index of the U.S. Treasury. Please keep in mind that you always have an the option of refinancing your home. In doing so, you can change the status of your rate

#### **Advantages of Fixed Rate Loans**

- Certainty. You will always know what your rate is. There will be no wondering if your rate will rise.
- If the current interest rates are low, locking in at a fixed rate will ensure that when the rates begin to rise, you will continue to pay the low rate.

#### **Disadvantages of Fixed Rate Loans**

- Be careful if the current interest rates are high. If this is the case, taking out a fixed rate loan will mean that you will pay the high rate, even if the current rates begin to fall.

#### **Advantages of ARM's**

- Typically, ARM's have a starting interest rate that is lower than the current rate. The difference can be between 1 and 3 points.

#### **Disadvantages of ARM's**

- Your ARM could rise quickly. If this is the case, you could end up paying much more than the current interest rates in a short period of time.
- Usually, ARM's do not give you the option to switch to a fixed rate. Your only option to escape paying a rising interest rate would be to refinance.

### **Federal Housing Administration (FHA) Loans**

The U.S. Department of Housing and Urban Development (HUD) guarantees loans for low to moderate-income buyers. These loans are backed by the Federal Housing Administration (FHA). FHA loans are very popular for first time home buyers in Minnesota. If you qualify for an FHA loan, you will need to pay for an FHA appraiser to determine the value of the property. You will also need to pay mortgage insurance.

#### **Advantages of FHA Loans**

- You can make a lower down payment.
- It is possible to qualify even if you have substantial long-term debt.
- If you take out an ARM FHA loan, it will only move 1 point per year.

#### **Disadvantages of FHA Loans**

- You must pay a mortgage insurance premium, or MIP, which is equal to 2 1/4% of the loan amount on a 30 year loan.

Continued on the next page...



## THE LOAN PROCESS (continued)

### Veterans Administration (VA) Loans

These are available to people who have served in the military for a certain length of time. To see if you qualify, call 651-296-2562 or 1-800-827-1000. Surviving spouses are also eligible for VA loans.

#### Advantages of VA Loans

- You can borrow the entire purchase price of the home. No down payment required.

#### Disadvantages of VA Loans

- You must pay a funding fee, which is 2% for veterans or those on active duty and 2 3/4% for those serving in the National Guard or reservist. You pay this fee as part of your monthly loan payment.

### Assumable Mortgages

A buyer can take over the seller's loan and make payments that were negotiated by the seller years ago. These types of loans carry higher interest rates, but have lower closing costs.

### A Caution About Predatory Lending

Predatory lenders take advantage of people in difficult financial situations. They will exploit those who have a lack of financial knowledge, which is why it is easy for first time home buyers to fall victim to them. Be cautious of the following.

- High interest rates and fees. Some loans will contain hidden fees. Most are negotiable. Be knowledgeable of what your lender charges. Ask them up front for a list of their fees.
- Small monthly payments with a large balloon payment at the end. Some lenders will make an offer with low monthly payments. Be sure to investigate how much the end of your loan will require you to pay monthly. It could be set up in such a way that you would be required to take out a second loan in order to pay off the original one.
- Prepayment penalties. Some loans may penalize consumers wanting to pay off some or all of the entire loan early. Minnesota law requires lenders to disclose these types of penalties at the time of application, and the lender must offer you an alternative should you decline.

### Mortgage Insurance

Depending on your loan type and the amount of your down payment, you may be required to purchase mortgage insurance.

If you made less than a 20% down payment on a conventional loan, you will need to purchase Private Mortgage Insurance (PMI), which is paid monthly. Once you gain 20% equity, then you may be released from this insurance.

If you have an FHA loan, you will need to pay a Mortgage Insurance Premium (MIP) of 2 1/4% of the total loan amount for a 30-year loan. You cannot cancel your MIP under state law.

### Property Appraisal

To approve your loan, your lender will require a property appraisal to ensure that the loan is appropriate for the condition of the property. An appraisal is an estimate of the property.

Continued on the next page...



## **THE LOAN PROCESS (continued)**

### **Homeowner's Insurance**

Another requirement of the lender will be that you have the property insured. This also insures their investment in the property. Be sure to shop around to avoid overpaying. Keep in mind that an insurance company will not only look at the current condition of the home, but they will also look at any past claims on the property, along with any past claims that you have made on any other properties. Depending on the location of the property, meaning county, city, and zip, you may pay a higher premium. The insurer will also look at your age, if you have children, and if you have any pets. Another cost-saving tip is to use the same insurance company that the previous homeowner used.

### **Title Insurance**

This will protect the lender in the event the legal title of the property isn't clear. Some events that could result in an unclear title would be if a spouse wasn't living in the property at the time of sale, then later decides they want to claim it, or if the property was left to another party in a will.

### **Escrow**

Your lender may require you to escrow monthly payments for things such as insurance and taxes. The amounts of these expenses will be included in your monthly mortgage.

*Original source: the Minnesota Association of REALTORS*



## NEEDS AND WANTS

Now that you Know where you would like to begin looking and what type of house to look for, its time to refine your search even further. Use the following worksheet to determine your needs and wants in a home. List what you need in the first column. In the second column list your wants.

FEATURES	NEEDS	WANTS	
		MOST	LEAST
Number of bedrooms			
Number of bathrooms			
Square Feet			
Style of Home (rambler, split-level, etc.)			
Modern Kitchen			
Fenced in Yard			
Fireplace			
Garage (How many stalls? Attached?)			
Porch			
Windows (number, type)			
Wood Floors			
Carpeting			
Other:			
Other:			
Other:			
Other:			
Other:			
Other:			



## FREQUENTLY ASKED QUESTIONS

**Q: What is the process for attending open houses for homes I am interested in?**

**A:** When you are interested in attending an open house you just need to let me know. I will give you some business cards so that you can avoid signing in and the calls that come along with that. Remember, for me to fully represent you, the other agent needs to be aware you are working with me.

**Q: How will you get me information about new homes on the market?**

**A:** The Multiple Listing Association provides a Multiple Listing Service (MLS) website in which up-to-date information is listed for each new home as it comes onto the market. Each day I preview the "New on Market" list to be constantly on the look out for the perfect home for you. I will get this information to you in the manner you prefer—phone calls and/or e-mails.

**Q: Will you inform me on homes from all real estate companies or just your own?**

**A:** I will keep you informed of all homes from ALL real estate companies. The MLS lists all homes on the market. I want you to find the perfect home and that means looking through all homes that are on the market. We also have software to notify you on a daily basis, via e-mail, of new listings or price changes on properties that meet your criteria.

**Q: How does "For Sale by Owner" (FSBO) work? Can you show me these properties?**

**A:** A homeowner trying to sell his/her home without agent representation is usually doing so in the hopes of saving the commission. If you see a FSBO and want the advantages of my services, please let me contact the owner to set the appointment. Most times the homeowner will work with an agent, even though their home is not listed, since the agent is introducing the buyer to their property.

**Q: Can we go back through a property again once an offer is made, but before possession?**

**A:** In most cases, I can notify the seller of a property and schedule a convenient time to visit the property again. Shortly before the closing, we will schedule a final walkthrough of your new home.

Continued on the next page...



## **FREQUENTLY ASKED QUESTIONS (continued)**

**Q: Once my offer is accepted, what do we need to do?**

**A:** Your main focus will be moving into your new home. You will want to schedule movers (or close friends), pack your items, etc. My job continues during this time as well. I will be in regular contact with our closers, title officers and lenders to make sure all details are covered for you. I have provided a checklist of things that will need attention before you move. Your lender will provide a good faith estimate & HUD statement, which will indicate the amount you will need to bring at closing. I will help you through the process to ensure a smooth closing.





## ONCE YOUR OFFER IS ACCEPTED

Once your offer is accepted by the seller I will guide you through the various activities that will occur ending with the day of closing (usually 45-60 days later). Here is a brief overview of that process.

- Earnest money deposit is placed into a trust account
- Home Owner's Warranty application is either signed or waived
- Loan application (may have already applied)
- Employment verification
- Bank verifications
- Credit report
- Appraisal
- Title report
- Lender commitment
- Inspections
- Repairs
- Homeowner's/Hazard insurance coverage arranged
- Buyer notified of closing
  - Place
  - Date and time
  - Funds needed and in what form
- Utilities placed in buyer's name
- Keys to new home given to buyer

This is quite a complex process, and I will work with the lender and title company to make sure it as smooth a process for you as possible. If you have any questions, please contact us to find out where you are in the process.



## UNDERSTANDING CLOSING COSTS

**Application Fee:** Fee charged by the lender to offset fixed costs related to mortgage loan processing such as appraisal, credit report, and underwriting.

**Closing Fee:** The fee charged by the closing agent who prepares the closing documents and closes the loan on behalf of the lender.

**Commitment Fee:** This is often called the origination fee and is generally computed as 1% of the mortgage amount

**Discount Points:** Each point is equal 1% of the mortgage amount. Points are used by the lender to adjust the yield on the mortgage when it is sold to an investor. By paying more points, the borrower can obtain a lower mortgage interest rate.

**Funding Fees:** Normally applicable on VA loans only, equal to 1% of the loan amount. The fee is due at closing or may be added to the loan amount to be financed.

**Homeowner's Insurance:** One year premium is due in advance at time of closing.

**Mortgage Insurance:** Insurance required by the lender when the down payment is less than 20% in the case of loan default, this insurance reduces the lender's loss.

**Pre-payables:** Adjustment to escrow accounts from the date of closing to the date of first payment. Interest is paid through the end of the month of closing, taxes are paid through the end of the month of closing plus the following month. Two months of PMI (Principle Mortgage and Interest) are collected. Two months of homeowner's insurance may be collected. A homeowner's insurance policy must be provided along with a receipt showing that the first year's premium is paid.

**Processing Fee:** Fees charged by the escrow processor, either working for the escrow company, title company, or real estate company, for administrative escrow services performed from the point of contract through closing.

**Recording Fees:** Fees charged by state or municipal entities for entering the closing documents into public record.

**Survey Fee:** Is usually required and is used by the lender to check for encroachments from within or from outside the subject property.



## WHO IS LAKES AREA REALTY?

Lakes Area Realty is a professional organization of experienced real estate brokers and owners. Together, we've pooled our talents to create a unique company that is highly responsive to its clients' every need.

In an filled with real estate mega-mergers and large corporations, it's refreshing to see the success of locally owned and managed company.

When you first meet Lakes Area Realty you'll notice the difference. You'll discover a company that believes in the individual spirit creating a company that has innovative marketing ideas tied to a strong sense of community.

We've never been about being the biggest. We're about exceptional performance with a personal connection.

At Lakes Area Realty we know real estate is about people. That's why everything we do is based on how it benefits you, our client.

Yes we're unique. Yes we're innovative. But in the end it always comes down to delivering on our commitments and satisfying the needs of our clients. This is what we do.

Thank you for choosing Lakes Area Realty.

We're different. We promise.



*Lakes Area Realty services all of the Twin Cities metro area and into greater Minnesota.*



## STEVE HAVIG—OWNER/BROKER OF LAKES AREA REALTY

Steve Havig, co-founder of Lakes Area Realty, brings professionalism to new heights. As a Minneapolis resident and business owner, Steve is an area expert with 39 years of sales experience. His responsiveness and vast knowledge of the market, keeps his clients completely satisfied throughout the entire buying or selling process. Steve also donates his time as a Board Member of Tree Trust. It is the extra effort and passion that has made Lakes Area Realty of Minneapolis, the number one locally owned Lakes Area home seller, and Steve one of Minneapolis's elite real estate agents.

### Expertise:

- Graduate of Realtors Institute (GRI)
- Certified Residential Specialist (CRS)
- President Elect of Minneapolis Area Assoc. of Realtors (MAAR)
- Member National Assoc of Realtors (NAR)
- President : Lakes Area Realty of Minneapolis.
- 39 Years of Sales Experience





## TESTIMONIALS

### **MINNEAPOLIS - KENWOOD**

"Not only does Lakes Area Realty promote your home on its own website, we also provide exposure through other major real estate websites. When you list with us, your home is shown on Realtor.com, Coldwell Banker Burnet, Edina Realty, RE/MAX, the Multiple Listing Service and other agencies participating in a program called broker reciprocity."

*~John and Jane Doe, ABC International*

### **MINNEAPOLIS - LINDEN HILLS**

"Not only does Lakes Area Realty promote your home on its own website, we also provide exposure through other major real estate websites. When you list with us, your home is shown on Realtor.com, Coldwell Banker Burnet, Edina Realty, RE/MAX, the Multiple Listing Service and other agencies participating in a program called broker reciprocity."

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*~John and Jane Doe, ABC International*



**NOTES:**





Dear Homebuyer,

Here is your complete guide to the exciting process of buying a home.

I have taken great care to provide you with answers to the most-asked questions, and explain the entire buying process from home selection to your moving checklist.

While I have made every attempt to make this guide as informational as possible, nothing compares with time spent together. During our counseling interview, I will have the opportunity to really get to know you and better understand your needs and wants.

I take great pride in my ability to make the home buying process a fun and rewarding experience. I'll negotiate the best possible price on your dream home, guide you through the financing process and make sure the closing goes exactly as planned.



Because of our commitment to exceptional service, a great deal of Lakes Ares Realty's business comes from past customers and clients.

Welcome to the home buying experience and thank you for choosing me as your agent.

Sincerely,

Agent Name.