

What you should know about Buying a Home

Introduction

Home ownership can provide you with many benefits: secure shelter, a long-term investment and tax advantages. However, a home is also a major financial commitment. There are ways to avoid costly mistakes that can strain your budget and your patience. This pamphlet contains tips to help you avoid problems when buying a home.

Affordability

A home is the largest single investment of most Americans. So the first question is: can you afford the home you want to buy. At the time of your home purchase, when the legal title is transferred to you, you will have to pay the price for the home and closing costs. Usually the bulk of the purchase price is paid with a mortgage loan. Afterward, you will need to budget for insurance premiums, maintenance, monthly loan payments, property taxes, utility bills, and repairs. To avoid surprises, examine the seller's bills to get an idea of the monthly expenses for the home. Also check the age and condition of appliances, plumbing, roof, structures and wiring since they might need repair after your purchase.

Using a Lawyer

A lawyer can help you through the home buying process by preparing or reviewing the purchase contract, advising you about financing and title insurance, answering your legal and tax questions and arranging for the documents necessary to complete the purchase. When you first visit a lawyer, you can ask for an estimate of legal fees and closing costs.

Using a Real Estate Agent

You should consult a lawyer before you sign a contract to buy a home. Although a printed form may be used for the purchase contract, your lawyer can make changes that protect you. For example, a change in the form may give you the right to cancel the purchase (and get a refund of your deposit) if you obtain an unsatisfactory inspection report. Using a Real Estate Agent

You may want a real estate agent to help you find and evaluate a potential home. Many real estate agents participate in multiple listing services that enable them to quickly identify homes that might be suitable. Also, an agent can help you complete the steps involved in a home purchase. For example, a real estate agent may help you obtain necessary documents. Sometimes the agent represents the seller and the interest of the agent is in concluding the sale. The purchase contract an agent prepares may not be as favorable to you as one prepared by your lawyer.

Purchase Contract

In some states, you may need to sign a binder and submit it to the seller to start the home buying process. A binder can be an agreement to sign a purchase contract or the purchase contract itself. In other states, the first document you sign is a purchase contract that contains the purchase price. Purchase contracts are called a variety of names, including deposit agreements, earnest money contracts, purchase agreements, and receipts. You should not sign a binder or purchase contract unless it protects your rights. A lawyer can prepare the document or review a printed form agreement that you receive from your real estate agent.

Deposit

Most purchase contracts provide for a cash deposit to show the seller that the buyer is serious. It should contain details about who will hold the deposit and how it will be applied. If you don't go through with buying the home, you may lose the deposit. Your lawyer can advise you about the circumstances that affect your rights to the deposit.

Conditions

Any conditions that must be met before you complete a home purchase should be stated in your purchase contract. For example, many buyers make their home purchase contingent upon obtaining financing, selling their present dwelling or obtaining a satisfactory report from a home inspector. Before you sign a purchase contract, your lawyer can make sure it contains provisions allowing you to cancel the purchase and get your deposit back if your conditions are not met.

Closing The Purchase

The "closing" of a purchase contract usually completes the purchase and takes place at a meeting in the

office of an attorney, escrow agent, lender, or title insurance company. At the closing, the buyer, seller, and lender sign a deed and mortgage, pay the purchase price and exchange documents. At this time, the buyer may also receive a title insurance policy, a statement of closing charges, and the keys to the house. Your lawyer usually attends the closing to assure that the documents and computation of closing costs are correct.

Inspection

Before closing, many home buyers hire a professional inspector to examine the structure, plumbing, wiring, appliances, heating and other systems for defects or needed repairs. Be sure that the purchase contract gives you the right to cancel the purchase if defects or deficiencies are not corrected by the seller before closing.

Title Search and Survey

You receive "title" to your home when the seller gives you a deed at the closing. The title may be limited by easements or building restrictions that affect your use of the home. Easements may give utilities or government authorities the right to use a part of your land for electrical lines, gas lines, sewers or drainage. Before closing, your lawyer can conduct a title search and advise you of any limitations that may interfere with your use of the home or affect its resale value. This title search also will tell you if the seller truly owns the property and is capable of selling it to you. Be sure to obtain an up-to-date survey of the property before completing your home purchase. The survey may disclose encroachments that do not appear in a title search.

Title Insurance

Title insurance protects you against the financial loss you may suffer if there are encumbrances, easements or title defects that were not revealed in a survey or title search. The cost of title insurance is usually paid at closing. Your lender will probably require that you buy title insurance to protect its mortgage interest in the home. You may be able to save money if you purchase owner's title insurance when you buy title insurance for your lender. Other savings may be available if the seller has a title insurance policy.

Conclusion

Your home can be a valuable investment and provide years of enjoyment. You can protect yourself against expensive mistakes if you proceed carefully before signing a purchase contract and closing the sale. If you are considering buying a home, ask your lawyer to handle your purchase contract and advise you about any pitfalls.

Checklist for Home Buyers

1 Pre-Purchase Considerations

- A. Choosing and using a real estate agent
- B. Choosing and using a lawyer
- C. Finding a lender
- D. Housing market considerations
- E. How expensive a home is affordable
- F. New construction or fixer-upper
- G. Personal preferences

2 Home Inspection

- A. Access
- B. Additions
- C. Appliances (age and condition)
- D. Boundary lines
- E. Electricity
- F. Floor plan
- G. Gas
- H. Heating and cooling
- I. Insulation
- J. Location
- K. Lot
- L. Monthly expense (insurance, utilities, repairs and taxes)
- M. Plumbing

4 Cancellation Rights

- A. Defects in structure, plumbing, wiring, appliances, etc.
- B. Easements and restrictions
- C. Lawyer approval
- D. Loan approval
- E. Liens
- F. Zoning

5 title examination

- A. Easements
- B. Liens
- C. Mortgages
- D. Restrictions on use
- E. Survey
- F. Taxes

6 closing documents

- A. Closing statement
- B. Deed
- C. Loan documents
- D. Survey
- E. Title insurance policy

- N. Roof
- O. Sewers and drains
- P. Size
- Q. Structural defects
- R. Termite infestation
- S. Water Heater
- T. Wiring

3 Purchase Contract

- A. Conditions (inspection, financing, legal review, etc.)
- B. Date for closing
- C. Date for possession
- D. Deed to be furnished
- E. Deposit
- F. Description of real estate property
- G. Inspection
- H. List of personal property
- I. Price
- J. Proration of taxes, insurance, and other charges
- K. Survey
- L. Warranty

7 Closing costs

- A. Closing document fee
- B. Mortgage document fee
- C. Proration of taxes, insurance, etc.
- D. Recording charges for deed and mortgage
- E. Title examination fee
- F. Title insurance fee
- G. Transfer taxes

This pamphlet provides general information. Laws develop over time and differ from state to state. This pamphlet does not provide legal advice about specific legal problems. Let us advise you about your particular situation.