

Learning the Keys  
to Owning Your New

HOME

## HOME BUYING GUIDE

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*What is a Buyer's Representative?*

*What Can I Afford?*

*Pre-Qualification and Loan Approval*

*What is an Offer?*

*How Much Are Closing Costs?*



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## Hire a Buyer's Agent

### What is a Real Estate Buyer's Representative?

A buyer representative, or agent, represents the consumer who is purchasing the property in the real estate transaction, not the seller. By state law, a buyer representative owes full fiduciary duties, including loyalty, to the real estate buyer. The buyer representative works for the buyer client and has the client's best interests in mind through the entire real estate transaction.

As your Buyer's Agent, I get compensated by being paid a commission at the time of settlement by the seller or the seller's agent. That means you get my services without being charged anything! I never charge extra fees, retainers, or deposits to work with a buyer. When we enter into a contract for me to represent you as your agent, I clearly list how I get paid and what your obligations as a buyer are to me.

### Why Should I Use One?

As a consumer, how often do you buy real estate? Once, twice, three times in your lifetime? Purchasing real estate is a complex and major transaction with many details to be handled. In the majority of cases the seller will be represented. Wouldn't you want to have complete and fair representation in the real estate transaction?

Real estate buyer's representatives are responsible for protecting their client's best interests. Research by the National Association of Realtors has shown that when a buyer's representative was used, the prospective buyer found his home one week faster and examined three more properties than those consumers who did not use a buyer's representative.

Last but not least, as a Buyer's Agent, I use the latest technology to search for a home that meets your specific needs. I work directly with each client to tailor a customized search of properties. While you are busy with all of life's responsibilities, I will be searching for the right home for you.

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## The Pre-Qualification Process

### How Much Home Can I Afford?

Before looking for a home it is important to determine your price range. This starts with looking at your monthly budget and how much cash you have to work with.

First, estimate your monthly housing expense based on your gross income and current debts. Typically a lender will allow up to 40% of your gross income to go towards all of your debt payments (car loans, credit cards, child support, etc.) including your monthly housing expense. Once we estimate your monthly payment, we can calculate the loan amount and the price range of the homes you can afford. See **Worksheet #1** to estimate your monthly housing payment and price range.

Second, speak with a qualified lender to determine the type and amount of mortgage you can secure. The lender will ask for your financial information and will also need permission to obtain your credit score. Your credit score will have an effect on the down payment you will need, the interest rate you will pay, and the documentation you will need to be approved for the loan.

The lender can then issue a **Pre-Qualification Letter** that will be submitted with an offer on a property to show the Seller you are capable of purchasing the home.

After obtaining a Pre-Qualification Letter, you will be ready to look for a new home. After you have found a home and your offer has been accepted, you will move forward with **Loan Approval**. The Loan Approval requires a written application along with documentation to verify your financial information. Your loan application will require a fee paid to the lender. See **Attachment #1** for a list of the documents required for the Loan Application.

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## **Making an Offer**

After the offer is drafted and signed by the Buyer, it will be presented to the Seller with the assistance of the Seller's Agent. The purchase offer you submit, if accepted as it stands, will become a binding sales contract (also known as the Agreement of Sale or simply the Agreement). This Sales Agreement is a standardized form used by all realtors in Pennsylvania; it is designed to provide legal protections to both the Buyer and Seller.

## **The Seller's Response to Your Offer**

You will have a binding contract if the seller, upon receiving your written offer, signs an acceptance just as it stands, unconditionally. The offer becomes a firm contract as soon as you are notified of acceptance. If the offer is rejected, the sellers cannot later change their minds and hold you to your offer.

If the seller likes everything except the sale price or the proposed closing date (or the basement pool table you want left with the property), you may receive a written counteroffer with the changes the seller prefers. You are then free to accept or reject it or even to make your own counteroffer.

Each time either party makes any change in the terms, the other side is free to accept or reject it, or counter again. The document becomes a binding contract only when one finally signs an unconditional acceptance of the other side's proposal. It is the Buyer's Agent responsibility to represent and negotiate on behalf of his/her client's interests.

## **A Note on Negotiations**

Everyone wants a bargain; however almost all real estate sells for Fair Market Value. Real estate is a unique commodity meaning there is only one home of its kind. You need to decide how important a particular home is to you and at what price you are willing to walk away. Don't worry about what other buyers might offer, the best you can do is offer a fair market price you are comfortable with.

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## Inspections

Pennsylvania has the Real Estate Seller Disclosure Law (68 P.S. 7301 et. seq.) which requires that a seller of a property disclose to the buyer all known material defects about a property being sold that are not readily observable. This also extends to the Realtors involved in the transaction.

The bottom line is, disclosure is the law. If the Seller, Seller's Agent, or Buyer's Agent have knowledge of a problem with the property, they must tell the Buyer.

The next natural question becomes, "What about the problems that are not known?" It is up to the Buyer to investigate the condition of the property. This is done by hiring licensed professionals to inspect the home. When making your offer you will specify what inspections you want to perform and the date in which you will have them completed. If the inspection reveals problems or issues with the house, further negotiations can occur as to how, and by whom, they will be addressed. If negotiation on inspection issues cannot satisfy either party, the Agreement can be terminated.

It is important to note that these inspections are completed at the Buyer's request at his/her expense. Reports obtained during the inspection must be made available to the Seller.

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Examples of typical inspections and costs:

**1. Property Inspection (\$350 - \$400)**

This is a general inspection of the home covering the mechanical systems, appliances, heater, roof, etc. The Buyer can also confirm the property boundaries, existence of easements and flood plains, or any environmental hazards including the presence of mold (*mold inspection costs an additional \$350-\$400*).

**2. Wood Infestation Inspection (\$80 - \$90)**

This inspection looks for any active wood eating insects, such as termites, and any damage they may have caused.

**3. Radon Inspection (\$120 - \$150)**

Radon is an odorless, tasteless, invisible gas that is naturally present in the ground. This gas can accumulate in a property (typically in the basement) and is known to cause long term health problems. The inspector will place a meter in the property for several days to detect the presence of radon.

**4. Lead Based Paint (\$400 - \$600)**

Lead was banned from being added to paint in 1978. This inspection only applies to homes built before that time. The lead in old paint can be harmful if ingested, especially to children. It is assumed that houses constructed prior to 1978 contain some amount of lead based paint.

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## Settlement & Closing

### Transfer of Ownership and the Costs Involved

Welcome to the end of the home buying experience! Settlement, or Closing, is the formal process by which the title of the real property passes from seller to buyer. Settlement is handled by a Title Company (sometimes called an Abstract Company) or an attorney of your choosing. At settlement you are ready to complete the purchase of the property.

Services will have been performed for which you are obligated to pay. These services are known as settlement or closing costs and include the following costs: 1) establishing the loan, 2) preparing the necessary documents to finalize the sale, 3) escrow monies, 4) and taxes to the state and local municipality.

One aspect of my job as your Buyer's Agent is to guide you through all of the necessary steps of this process and inform you of the fees involved to accomplish the transfer. You will be required to bring a certified check or bank check to closing to cover the balance of the down payment and the closing cost.



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## **Mortgage & Settlements**

### **Mortgage Origination Costs**

These are fees that the bank or mortgage company charges you (the borrower). They include fees for having the home appraised to verify the value, obtaining your credit report, preparing the mortgage documents, underwriting or approving the loan, establishing an escrow account for taxes and insurance, and verifying if the property is in a flood zone. The lender may also charge “points” to reduce the interest rate or originate the loan. One point equals 1% of the loan amount.

### **Title Insurance Costs**

Title insurance is provided by the title company and is a one-time fee. It insures that no other parties have a legal claim against the property you are purchasing. This insurance is good for as long as you own the property. Because your lender has an equitable interest in the property they will need to be added to the policy through an “endorsement”. Title insurance fees are set by the Commonwealth of PA and are based on the purchase price.

### **Transfer Tax**

The state, county, and local municipality charge a tax on every real estate transfer. In our area this tax is 2% of the purchase price and is typically split between the Buyer and the Seller.

### **Notary and Recording Fees**

All signed documents are notarized to verify the identity of the parties involved, and are then recorded in the County Courthouse and become public record.

### **Unpaid bills to contractors or inspectors**

The Buyer is obligated to pay any unpaid bills for services they have incurred. These may include property inspections, attorney fees, survey costs, etc.

### **Other Closing Costs**

There will be charges for other services such as wiring funds from the bank, overnight fees to return signed documents to the bank, preparing the deed and any documents that are emailed to the title company, and certifying that the title company is licensed (Closing Service Letter).

### **Homeowner's Insurance**

You will be required to insure the home against fire, damage, or flood (if in a flood zone). The first year's premium must be paid in full prior to settlement.

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## **Escrows Required by Lender**

An escrow account is a separate bank account set up to hold money. Most buyers will make one payment to the lender that includes the monthly mortgage payment, monthly property tax cost, and monthly homeowners insurance cost. The taxes and insurance portion will go into your escrow account and when the tax bill or insurance invoice is due the lender will pay it for you. Because you are starting with a zero balance in your account, the lender will need to collect money at settlement to insure there are sufficient funds when the bill is due.

## **Reimbursement to Seller**

The seller may have paid some items in advance, such as property taxes and sewer charges. The Buyer will reimburse the seller for this money at settlement since you will own the property from that day forward.

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## Pre-Qualification – What Can You Afford?

1. Add all sources of your gross monthly income based on the past 2 years:

Borrower		\$ _____
Co-Borrower	+	_____
Total		\$ _____
Monthly Overall Debt Expense Ratio		_____ x 40%
<b>LINE 1: Total</b>		<b>\$ _____</b>

2. Add all monthly debt payments

Auto Loan / Lease		\$ _____
Credit Card Payment(s)	+	_____
Personal / Student Loan Payments	+	_____
Installment Payments	+	_____
Alimony / Child Support	+	_____
<b>LINE 2: Total</b>		<b>\$ _____</b>

3. Tabulate Maximum Funds Available for Monthly Housing Expense

Enter <b>LINE 1 Total</b>		\$ _____
Subtract <b>LINE 2 Total</b>	-	_____
<b>LINE 3: Monthly Housing Expense</b>		<b>\$ _____</b>

4. Determine your price range

Enter <b>LINE 3: Monthly Housing Expense</b>		\$ _____
Subtract Estimated Monthly Property Taxes	-	_____
Subtract Estimated Monthly Home Owner's	-	_____
Subtract Estimated Monthly Association Fees	-	_____
Subtract Estimated Monthly Mortgage Insurance	-	_____
<b>LINE 4: Estimated Monthly Mortgage Payment</b>		<b>\$ _____</b>

### Mortgage Index

*(Based on a 30 yr. fixed rate mortgage at 6% interest)*

<u>Monthly Payment</u>	<u>Loan Amount</u>	<u>Monthly Payment</u>	<u>Loan Amount</u>
\$540.00	\$ 90,000.00	\$990.00	\$165,000.00
\$630.00	\$105,000.00	\$1,080.00	\$180,000.00
\$730.00	\$120,000.00	\$1,170.00	\$195,000.00
\$810.00	\$135,000.00	\$1,260.00	\$210,000.00
\$900.00	\$150,000.00	\$1,350.00	\$225,000.00

Loan amount from Mortgage Index		\$ _____
Cash Down Payment	+	_____
<b>LINE 5: Purchase Price</b>		<b>\$ _____</b>

LINE 5 represents your target purchase price.  
Buyers typically will shop for homes within 5% of this amount.

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## Loan Application Documents

### What information do I need to give the loan officer?

1. Social Security Number – Permission to obtain a copy of your Credit Report
2. Two years of W-2's – Your gross annual income (including tips, over-time, commissions, bonuses etc.)
3. Three months of bank statements – The amount of cash you have to work with that is currently in the bank
4. Gift Letter – Any other sources of money you will have to use (gifts from relatives, etc.)
5. Monthly debit payment amounts & loan balances – This information will also be on your credit report (credit card payment, car loans, student loans, etc.)
6. Type of Loan – Home purchase, land purchase, new construction, investment, etc.

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## Glossary

Cash Funds: This is money you have available in the bank to apply towards your purchase. You need sufficient funds towards the Cash Down Payment and to pay for Closing Cost Fees at settlement.

Deed: The deed is a written instrument by which the property owner (Grantor) conveys and transfers to the buyer (Grantee) an ownership interest in real property. Unlike the title to a car, destruction or loss of a deed has no effect on ownership, because the deed is simply evidence of the transfer, not the title itself. Typically a deed is recorded in the county courthouse

Earnest or Deposit Money: This is a deposit that you give when making an offer on a house. If your offer is accepted the Listing Broker usually holds the deposit in an escrow account. This money is the applied towards your Cash Funds needed at settlement.

Monthly Housing Expense: Monthly payment amount that includes the Mortgage Payment (principle and interest), Property Taxes, Homeowner's Insurance, and applicable Association Fees or Mortgage Insurance.

Pre-Qualification vs. Loan Approval: Pre-Qualification with a lender is an informal process done verbally and at no charge. The Loan Approval requires a written application along with documentation to verify your financial information and an application fee paid to the lender.

Seller Assist or Credit: A seller credit is when the seller agrees to pay for a portion of the buyer's closing costs at settlement. The seller credits the buyer the agreed amount, reducing the buyer's total cash funds needed. Because this credit will reduce the seller's cash proceeds from the sale, a seller must agree to this at the time of the offer, and terms are included in the Agreement of Sale. Most lenders allow for a credit of 3% of the purchase price and in some special instances as much as 6%.

Seller's Property Disclosure Statement (Form SPD): This is a standard questionnaire all Sellers must complete, detailing material defects of the property. A copy is usually available to the Buyer when they tour the property. If the property is an estate, typically the executor signs this form documenting that they do not have direct knowledge about the home.

Settlement Statement: This is a standard form required for all real estate transactions and issued by the U.S. Department of Housing and Urban Development. The form details important information including the parties involved in the transaction, settlement date, and exact costs for both Buyer and Seller.



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## Matthew Green - Realtor

Matthew "Matt" Green is a Realtor from Glocker and Company Inc. Real Estate with offices in Boyertown and Pottstown. Matt is a former Pottstown Police Officer and 15 year veteran of law enforcement. Matt is an experienced instructor and presenter of educational programming. Matt lives in Pottstown with his family, and is interested in helping other Pottstown families achieve the dream of home ownership. Home ownership and business development are critical to the success of Pottstown.

## Arthur Green - Community Leader

Arthur "Art" Green is a retired Teacher and Union Representative. Art has over 30 years' experience as a Teacher and Adult Learning Instructor. Art is an active leader in the community having served on Pottstown Borough Council, the Library Board of Directors and Chairman of the Board for the Pottstown Area Health and Wellness Foundation. Art strongly believes that education is the key to success.

## GlockeR & Company Inc. - 45 Years of Local Real Estate Success

GlockeR & Company Inc. has a long history of serving the real estate needs of the tri-county area. Starting in 1968, founder Karl Glocker opened his first office in the Spring Ford area as a one-person operation and today we have 18 full time sales agents and several clerical support employees. Our offices are conveniently located in North Coventry and Boyertown. Starting in 2013, Glocker & Co. Inc. has made another transition as the two associate brokers, Matthew Kennedy and Martin Slater, have taken ownership of the real estate division, while Karl Glocker has remained as the managing broker of record.



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