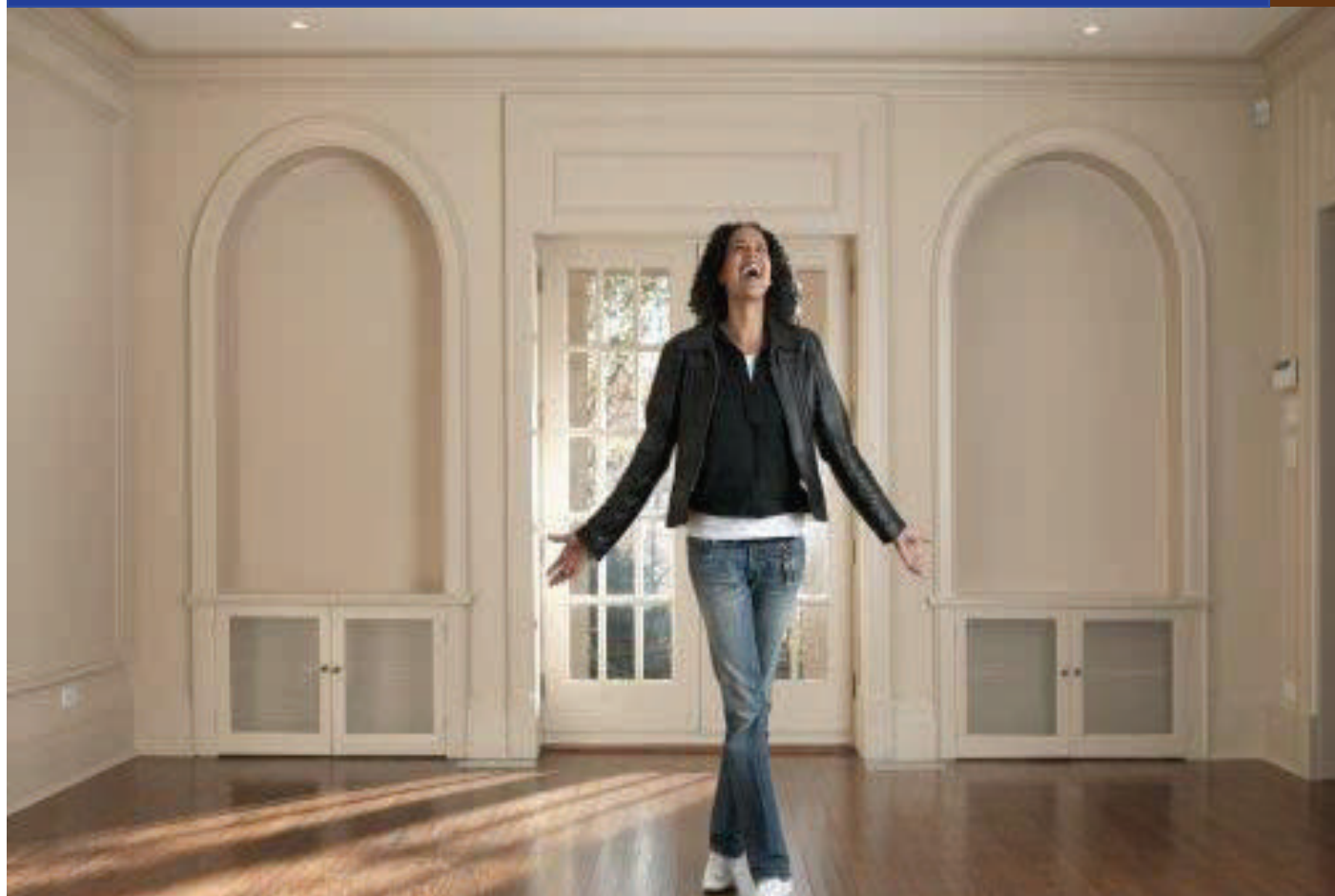


## Syreeta Saunders-Keys Professional Real Estate Services



## 2007 First Time Buyer's Guide

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Welcome to the 2007 First Time Buyers Guide. Let me congratulate you on your consideration of buying your first home. This is a momentous step and requires planning in order to make sure you are happy with your purchase. This guide will provide you with information you will need to make an informed decision that will insure you many years of happiness.

*Syretta Saunders-Keys*



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# Planning

House hunting begins at home—with planning. In today’s market, an affordable home is not so much determined by sales price as it is by the financing which translates that price into a monthly payment.

## **How Much House Can I Afford?**

How much house you can afford to buy depends on two things: how much you can invest in the down payment, and how much you can afford for the monthly housing payment. These payments include principal and interest on the mortgage loan, and property taxes and insurance, or PITI:

- **Principal** – The amount of the payment that goes towards paying down the loan amount. Since, for most loans, part of your mortgage payment gets applied towards principal, over time, your outstanding principal balance will go down.
- **Interest** – The interest rate lenders charge is the cost of the borrowed money. The interest and principal payments equal your monthly mortgage payment.
- **Taxes** – The local government where the home is located will assess your home and determine its real estate taxes. Most lenders will collect this as part of your monthly payment and then pay your local government on your behalf. This is commonly referred to as tax escrow.

**Insurance** – Homeowner’s insurance (or hazard insurance) covers you in the event of damage to your property caused by fire, wind, or other hazards.

For some buyers, monthly housing costs may also include homeowners association dues, condominium fees, and mortgage insurance.

## **Down Payment Sources**

The traditional source of money for your down payment is either your savings or the proceeds from the sale of a home you already own. But there are some other not so obvious sources.

**Home Equity Loan** – Parents often have considerable equity built up in their own homes, and through a home equity loan, can gift a down payment for a home to their children. Often lenders will require a “gift letter” to verify the parents don’t expect repayment. In return for providing a part of the down payment, the parents (or another investor) share in the profit or net equity of the house when it is eventually sold. Ask your tax advisor for current information.

**Life Insurance** – If you have built up a cash value on your life insurance policy, you may be able to borrow up to this amount from your insurance company. You may even get a more favorable interest rate for this type of loan.

**Stocks and Bonds** – You may be able to secure a bank loan using your portfolio as security, without selling your stocks and bonds.

**Company Profit Sharing or Savings Plan** – Look into the possibility of withdrawing or borrowing against what you have in your employer’s profit sharing or savings plan account.

Don’t plan to put your last penny down on the closing table. The larger the down payment, the less money you need to borrow. However, you will still need money for closing costs, moving, setting up your new home, and other miscellaneous expenses.

# Planning (continued)

## **Pre-qualification vs. Pre-approval**

Knowing your affordable price range will bring your house hunting into focus. How much money you qualify for will depend on a variety of factors including credit history, length of employment, and down payment amount.

Based on information you provide, your lender can estimate how much money you can borrow before applying for a loan. This non-binding process is called pre-qualifying.

Your lender can also take detailed look at your financial and credit profiles (including a credit check) and commit to lending you a specified amount of money pending specific property details. The lender will then provide you with a letter stating how much mortgage you qualify for. This process is called pre-approval. With a pre-approval letter, you can:

- Shop for a home with the confidence of knowing exactly how much you can afford.
- Show sellers you are serious about buying and that you can afford to make a purchase.
- Discover any qualification issues early in the home buying process.

Because a pre-approval takes a closer look at your background and includes a credit check, it holds more weight with sellers than pre-qualification.

## **Mortgage Insurance**

If you obtain a conventional loan, depending on your loan program and down payment amount, you may be required to buy private mortgage insurance (PMI). This insurance protects the lender in case you default on the loan, allowing the lender to approve a larger loan amount.

Mortgage insurance offers a variety of payment options, including making an initial payment at closing or making monthly payments with the house payment. You may even increase your interest rate and have the lender pay the insurance. Be sure to ask your lender to compare the benefits of the different plans.

# Shopping

Like planning, house hunting begins at home. We've learned through the thousands of home buyers we have helped that the best approach is to be prepared. What appeals to you as a buyer today will probably also appeal to buyers tomorrow. As a careful house hunter, you will benefit years from now when it is time to sell to an equally value-conscious buyer.

We have developed some questions to help you identify your needs and preferences. Once you have clarified what you like in your present community, you will have a better idea of what you want to find. Plus, you will be able to share your preferences with Syreeta Saunders-Keys, your RE/MAX sales associate, who can help you find your new home.

## County and City Questions

- Would you characterize your present area as urban, suburban, semi-rural, or rural? Is the population density low, medium, or high? Is the population decreasing, stable, or increasing?
- What natural features are the most significant? Woods? Hills? Flat land? River? Ocean shore? Man-made lakes? Streams and ponds?
- How do you commute to work? Do you walk? Drive? Car pool? Taxi? Bus? Train? How far must you travel and how long does it take in the morning and evening? Do you use available public transportation for local trips or to visit close-by communities? Can someone reach your home on public transportation?
- Where do you do your shopping? Central commercial districts? Shopping malls? Strip malls?
- Community shops or home delivery? Imagine a list of typical stops in one week. How many miles and how much time would visiting the entire list require? Do you want greater convenience?
- What types of schools does your family attend now? From grade school to graduate school, and from day care needs to special vocational training, what facilities will you require in the next few years? Are there any special needs or plans? Although it is extremely difficult to compare quality of education, some statistical indicators can be helpful: Average class size at grade level; Comparative standardized test scores; Average salary of teachers; Percentage of high school graduates who go to college.

What does the area offer for recreation and entertainment? Music? Movies and live stage? Sports arenas? Museums? Nightlife? What types of indoor and outdoor sports facilities are available? Are there public parks, country clubs, athletic clubs, fraternal groups? Do you require any special facilities?

# Shopping (continued)

## Neighborhood Questions

The concept of neighborhood isn't as precise as county or city. Some people consider the boundaries to be the district around a grade school. Others consider it walking distance within a half-mile radius. Wherever you draw the line, a neighborhood is the immediate area around your house.

No matter how much hard data you gather about a neighborhood, nothing compares with information from local people. Whether it is fellow workers, letter carriers, or people at a bus stop...neighbors are the best observers of a neighborhood. Talk to as many people as you can, and ask them the following questions:

- Do neighbors socialize regularly, or hold block parties, picnics, holiday parties, organize sports teams? What are the ways they have met their neighbors? Walking a dog, commuting, PTA, parties, little league, gardening?
- How much do the neighbors care for lawns and gardens? Are the houses maintained "like new", adequately, poorly? Is there a Homeowners Association?
- Are cars parked mostly in garages, driveways, on the street? How old are the houses? More than 30 years old? 15 to 30 years? New? How far apart are the houses? Are property upgrades common? Swimming pools, tennis courts, fences, walls, patios, extensive landscaping?
- For convenience, how does the neighborhood rate? Can you walk to shopping or is a car necessary? List your five most frequent destinations. Are they clustered in one stop-and-shop location? Two stops? How much time is required for fire, police, or ambulance services to arrive in an emergency? How close are cultural centers, parks, restaurants, theaters, playgrounds?
- How do the children routinely reach their schools, play areas, friends' homes? By walking, bicycle, bus, or do parents drive them? Is public transportation available for commuting or shopping? Do any local ordinances affect pets, parking, lawns, etc.?

What are the disadvantages of the neighborhood? Freeway, railroad, or airplane noise? Factory pollution, heavy traffic, exposure to heavy storms, possible flooding?

# Shopping (continued)

## House Questions

We've saved the best for last. In many ways, finding a home is easier than choosing a county and a neighborhood, because you are considering tangible details. Yet our experience suggests that many people "decide" with emotion and "justify" with facts. This section will help you find a better balance.

If you can clearly describe the features you require, Syreeta Saunders-Keys, your RE/MAX sales associate, can make a preliminary screening for you from the thousands of homes for sale. After you select the best houses, you can concentrate on inspecting your top choices.

- Will it just be you and your pet living in the house or do you have a family of six? Do you prefer a new or resale home? What is your preferred housing style? Townhouse, colonial, contemporary, split level, split foyer, Cape Cod, rambler, or something else?
- How many total rooms do you need? Bedrooms, bathrooms? How strongly do you require features such as: separate living room, dining room, laundry room, basement or attic, family room, fireplace, workshop area, garage? How much property do you require? Do you have preferences for any particular natural features?
- Outside. Address of property? House style? Lot size? Landscaping details? Degree of grounds maintenance required? Age of house? Structural condition? Are any major repairs or improvements necessary? Maintenance of building?
- Inside. Make a sketch of floor plans. Total number of rooms and baths on each floor? Any extras such as intercom, fireplaces, phone jacks? Built-in appliances: dishwasher, garbage disposal, trash compactor? Enough closets? Adequate storage space?
- Construction. Inspect quality of materials, present condition, craftsmanship both inside and outside. Insulation? Weather stripping or storm windows?

Major systems. Plumbing, electrical, heating and cooling. What type of fuel does the heating system use? Approximate annual cost? A professional inspection of the major systems is recommended for a house that you are interested in purchasing.

# Shopping (continued)

## Area House Styles

- **Cape Cod.** A symmetrical peaked roof often with dormer windows which creates a one-and-a-half story design with living space upstairs in an “expansion attic.”
- **Colonial.** A two-story design with center hall or side entry, often with basement. Variations often feature double or single wings with garage. Numerous styles include New England, Federal, Plantation, Dutch Colonial, Georgian, French Colonial.
- **Contemporary.** Modern and non-traditional creation of living spaces using a spectrum of shapes, materials, and designs. An “open” use of space is characteristic. May be single or multiple stories.
- **Hi-Rise Condominium.** Multi-story building with elevator access to owned apartments; monthly fee usually pays for use of recreation facilities, maintenance, and utilities.
- **Low-Rise Condominium.** A cluster of attached units, four stories or less ranging from converted garden apartments to ramblers and two-story townhouses. Resident owns title to living space while jointly owning public areas. Condominium fee often covers maintenance, amenities, sometimes water; other utilities may be individually billed.
- **Rambler.** A single-story house with all living areas on same level. Variations include L-shape or U-shape plan, perhaps with basement. Sometime called ranch; if it is small, a bungalow or cottage.
- **Split Foyer.** Entry is between floors. Makes use of slope by placing basement partially above ground level on uphill side, thus basement becomes livable space. Also called a split entry.
- **Split Level.** Side wing has two levels off main ground floor; designed for maximum living space while occupying the least land. Garage and sub-basement are frequent options.
- **Townhouse.** A row of two-or-three-story dwellings sharing common walls, also called row houses. Wide range of styles from contemporary to colonial. The term “semi-detached” describes a pair of townhouse end units, similar in function to a duplex.

## Financial Questions

- Is the asking price comparable to other houses in the neighborhood? Higher or lower? When carefully comparing properties, be sure to take into account unique features and improvements that vary house-to-house, and consult Syreeta Saunders-Keys, your RE/MAX sales associate, who can provide a Comparative Market Analysis (CMA).
- Is the existing mortgage assumable? Required down payment amount? What financing method is acceptable to the seller?

What are the annual property taxes? Will the taxes increase with the transfer of deed and a new market price? Any local bonds or assessments?

# Financing

When it comes to paying for a home, don't be intimidated by the word "mortgage". A mortgage is simply a loan made to help you finance a home. It indicates that a specific amount of money will be loaned at a specific interest rate for a specific period of time (the term of the loan). In addition, you agree to make timely payments throughout the life of the loan.

Here are the main mortgage options ones you should know about:

## **Conventional Mortgage**

A conventional mortgage is a loan to purchase property made between a lending institution and a borrower without a third-party participant, such as the FHA or VA. Most types of conventional loans are paid off over 15, 25, or 30 years.

Terms of a conventional loan vary among lenders, but basically a loan can be obtained even without a down payment. When the down payment is less than 20%, it is often necessary for the loan to have private mortgage insurance (PMI) to protect the lender. Private mortgage insurance (PMI) is insurance written by a private company that protects the lender from losses in the event the borrower defaults on the mortgage. Borrowers are required to pay the premium for private mortgage insurance. Private mortgage insurance limits a lender's exposure to financial loss resulting from loan default.

Conventional mortgages can be conforming or non-conforming. The conforming loan limit, for 2006 is set at \$417,000 for single-family homes (\$625,500 in Alaska and Hawaii). Mortgages larger than this amount, or that have other features that put them outside Fannie Mae and Freddie Mac criteria, are called non-conforming or jumbo loans.

In addition, conventional mortgages can have a fixed rate or adjustable rate.

## **Fixed-Rate Mortgages**

Fixed-rate mortgages give you the security of knowing your monthly principal and interest payment will not change over the life of the loan. This type of conventional mortgage also protects you from rising interest rates. No matter how high market interest rates go, your mortgage rate remains the same. There are a variety of fixed-rate products, with loan terms ranging from 10 to 30 years. Fixed-rate mortgages are best for people who:

- Prefer regular payments with no surprises
- Are on limited or fixed incomes
- Plan to stay in their homes a long time
- Are buying a home at a time when interest rates are comparatively low

# Financing (continued)

## Adjustable Rate Mortgages

An adjustable-rate mortgage (ARM) has an interest rate that is fixed for the first one to 10 years and then adjusts periodically based on financial market conditions. During the initial fixed period, an ARM has a lower interest rate than a comparable fixed-rate mortgage, so you'll save on your monthly payments during the early years of your loan term. Because this type of conventional mortgage offers lower upfront monthly payments, it can help you:

- **Buy a more expensive home.** Because your maximum loan amount is based on the initial monthly payments, you may be able to borrow more.
- **Manage your cash flow in a high-rate environment.** If you are buying a home at a time when interest rates are comparatively high, an ARM can help you avoid making high monthly payments right away.
- **Plan for future income growth.** An ARM can help you keep your payments low while your income increases during the loan's fixed period.
- **Potentially improve your credit standing.** The lower initial rate can make your payments easier to manage, helping you improve your credit and expand your financing opportunities if you make timely payments on your mortgage loan and other credit obligations.
- **Save money if you expect to move or refinance.** If you plan to move or refinance before the end of the loan's initial fixed period, you can take advantage of an ARM's lower payments without worrying about future rate increases.

After the initial fixed-rate period, the remainder of the loan term is divided into adjustment periods of one year or six months, depending on the ARM product you choose. At the end of each adjustment period, the interest rate may change based on prevailing market conditions.

## VA Loan

If you or your spouse is a qualified veteran, you can apply for a VA loan guaranteed by the Department of Veteran Affairs. Under this program, eligible veterans can receive a mortgage loan up to \$417,000 with no down payment. Higher loan balances may require a down payment.

## FHA Loan

With an FHA loan, the Federal Housing Authority insures federally qualified lenders against any default payments by the borrower. While the down payment can be as low as 2.25% of the purchase price, the FHA charges the borrower an up-front mortgage insurance premium (MIP) fee. Prepaid interest, called points, may also be charged by the lender.

## Financed Closing Costs

Many lenders today are willing to assist buyers with closing costs. In exchange for paying a slightly higher interest rate, a lender may build into the mortgage its normal charges plus pay other closing costs up to a specified amount. These plans vary widely, so study them carefully.

## Balloon Mortgage

A balloon mortgage is a loan that offers a low interest rate for a set period of time, typically 5, 7, or 10 years. At the end of that time period, the balance is due in full to the lender or refinanced by the borrower.

# The Offer

You found your dream house. You want to buy it. Now what?

With the help of Syreeta Saunders-Keys, your RE/MAX sales associate, you submit a signed real estate offer to purchase with the type of financing you desire. Before you sign it, read it carefully and make sure you understand every detail. This will be the sales contract once the seller accepts and signs the offer. Any verbal agreements should be written into the contract. If you plan to have a lawyer represent or advise you, retain one as early as possible.

## Offers and Counter Offers

Syreeta Saunders-Keys, your sales associate, will take the offer to a “contract presentation” with the home seller and listing broker. The seller will accept it as written, make counter offers on unacceptable aspects, or reject it. You can then accept it, counter-the-counter offer, or reject it. The offer to buy becomes a contract when all parties have initialed every counter and signed the offer.

When you sign the offer to buy, you will also have to show that you are earnest about the purchase by submitting a deposit—appropriately called earnest money.

Contract Provisions While sales contracts differ from transaction to transaction, there are several provisions you may want to include:

- **Deposit** - The amount of earnest money should be clearly stated, plus the amount of money you will be paying at settlement and your sources of financing. A common purchase deposit in many areas is 1-2% of the purchase price, deposited in escrow.
- **Financing Contingency** - Be specific about the total loan amount, the date a second or third mortgage is due, and the exact financing terms. Many contracts have an “alternative financing clause” that allows buyers to accept different financing, as long as it does not affect the seller’s net proceeds.
- **Inspection Contingency** - You may make the contract contingent on a building inspection report. You will usually have to pay for this inspection, but the peace of mind or detection of a problem is well worth the cost of inspecting.
- **Termites** - The contract may require the seller or buyer, depending upon the area, to pay for a termite inspection. The results of this inspection may require payment to remove the infestation and repair any resulting damages. You should get a written report at settlement indicating that the property is free and clear of any active termite infestation. In some areas, well and septic certificates are also required.
- **Personal Property** - Specify in writing if items not physically attached to the house are to be included in the sale. These items can include light fixtures, drapery rods, appliances, firewood, and even swimming pool chemicals.
- **Repair Work** - Standard contracts of sale require sellers to confirm plumbing, heating, mechanical, and electrical systems are in working order at the time of settlement. You should conduct a pre-settlement walk-through inspection several days before or no later than the day of settlement.
- **Title Attorney or Insurance Company** – As the buyer, you have the right to select the title attorney or insurance company who will conduct your settlement. Also, be sure to clear the title company with the lender, whose interests are also involved. Ask Syreeta Saunders-Keys, your sales associate, for a list of settlement and insurance services throughout our region.
- **Closing and Occupancy Date** - Include an arrangement with the seller, such as a daily rent-back agreement, in case they remain in the house past the settlement date.

# Money

Competition among lenders is lively these days, and smart borrowers shop around to find the home financing that best suits their needs. Generally, it takes 15 to 30 days to approve a conventional mortgage, and 30 to 45 days to approve a VA or FHA mortgage. In some cases, loans may be approved more quickly.

Ready to shop? Check out any of the following resources:

**Financial Institutions** - Mutual savings banks, savings and loan associations, insurance companies, and some commercial banks are the traditional sources of mortgage loans. Savings and loans often grant favorable terms to their own account holders.

**Mortgage Lenders** - Mortgage lenders issue mortgages to borrowers. They then process and sell the mortgages to large investors or into the secondary mortgage market.

**Mortgage Loan Brokers** - These individuals or groups charge a fee to match borrowers with lenders. Sometimes they make direct loans. An advantage of working with mortgage brokers is that they often represent many investors and can provide you with many more financing alternatives, usually at the same price as the mortgage lender.

**Private Lenders** - Individuals (often home sellers) and groups (sometimes sellers' employers—if the seller is being transferred) lend money. This source is especially helpful in arranging second mortgages, but can also assist with other mortgage plans.

**Credit Unions** - Federal credit unions can write 30-year conventional and government insured mortgages. Some will even make loans.

**Finance Companies** – These companies compete with the more traditional lenders and often promise quick service. Some do not charge mortgage points or pre-payment penalties.

## Information Lenders Will Need to Process Your Loan

- The amount of money you wish to borrow and the length of time you will need the money.
- Your current address and any other addresses in the past 24 months.
- Your social security number.
- Your current employer's name, address and phone number and the same information for any other employers in the past 24 months.
- Your gross monthly income including documentation: most recent pay stub, final pay stub for any job you may have left in the current year and previous year's W-2 form(s).
- Complete account statements (all pages) for any bank, credit union, retirement, or brokerage accounts.
- Your assets including real estate, personal property, stocks and bonds, and life insurance with cash value.
- A complete list of your debts including account numbers, balances and minimum payments.
- A copy of the sales contract.
- A written account of any problems concerning your application and supporting documentation.

With this information in hand, the lender will take the following steps to process your application:

1. Verify the facts.
2. Get a credit report.
3. Make a home appraisal.
4. Review your application.
5. Decide whether or not to make the loan.

# Money (continued)

## Questions You Should Ask Lenders

- Are both fixed-rate and adjustable mortgage loans available?
- What is the interest rate?
- What are points?
- How long can I lock-in the financing at the current interest rate?
- What are the other fees you may charge in conjunction with my loan?
- Are funds for a second mortgage available?
  - On adjustable loans:
    - How often will the interest rate be adjusted?
    - Is there a maximum limit on each rate change?
    - How often will the monthly payment be adjusted?
    - Is there a ceiling on payment adjustments?
    - Can the term of the loan be extended?
- Is there a pre-payment penalty clause?
- Is there an open-end clause?
- What is the payment grace period?
- What is the payment late fee?
- What will happen if a payment is missed?
- If I sell my house, will the new buyer be able to assume the mortgage at the same interest rate?
- Do I have to pay points to get a new mortgage?
- Will you require mortgage insurance?

# Protection

## **Fire And Hazard Insurance**

At settlement, most lenders will require you to provide a one-year paid receipt for a fire and hazard insurance policy, often called homeowner's insurance. These policies are available from several leading insurance companies or the insurance company of your choice.

## **Home Warranty**

Eventually, you will have a problem with your home. One out of 200 new homes will experience a structural failure that will cost an average of \$30,000. A home warranty from one of our three providers will give your home the protection it needs. Depending on the plan you select, coverage will include mechanical breakdowns in major systems such as plumbing, electrical, heating, and air conditioning, as well as major household appliances such as the oven, refrigerator, washer, and dryer.

## **Home Inspection**

While you can see for yourself many flaws in a house, the practiced eye of a professional inspector can spot more, especially in areas not easily accessible to you. The inspector, who should be a member of the American Society of Home Inspectors, will examine the structural and mechanical condition of the home, and then deliver a written report on the findings.

Specific information could reduce the price of the house if the seller will agree the price has not already been discounted for found defects. Many states now require that sellers provide buyers with either a residential property disclosure or disclaimer statement.

If no serious problems are found, inspection can pay off indirectly in assurance that you are making a sound investment.

## **Title Insurance**

Title insurance provides protection in the event any number of past actions threaten the title to your property. Most lenders will require title insurance to protect their interests. Be sure to ask about an owner's policy as well, to protect your title. You may save money if you buy owner's title insurance at the same time as mortgage title insurance, rather than buying it separately later.

As a home buyer, you may be able to save money with a "re-issue rate" for title insurance, if the property changed hands within the last several years. The title insurance may allow a lower re-issue rate premium because the recent title search is still valid. Consult your title attorney and insurance company for details.

# Protection (continued)

## **Walk-Through Inspection**

The time for you to inspect and note defects for correction by the seller is during the contract negotiation and prior to signing the sales agreement. The purpose of the walk-through inspection prior to settlement is to determine if conditions in the contract are satisfied.

It is up to you to perform the final walk-through inspection. The seller may or may not be present. You should be accompanied by the selling broker or the listing broker.

During the inspection, you should

- Try all lights and switches.
- Turn all faucets on and off.
- Run showers and flush toilets.
- Turn on the furnace and central air conditioning. In the off-season, the buyer may hire a professional to certify proper functionality.
- Test all stove burners.
- Turn on the oven at bake and broil.
- Run some ice cubes through disposal to test the blades.
- Run the dishwasher, washer, and dryer through complete cycles.
- Open and close all windows and doors.

In short, try everything, including the keys and the fireplace flue.

All deficiencies will be noted. The selling broker will coordinate with the listing broker and seller to make repairs before settlement. If the seller does not correct problems prior to settlement, the attorney may withhold funds from the seller.

# Settlement

The big day is here! Joining you at settlement will be your attorney or title company representative, the listing and selling brokers, and all owners. The attorney will have searched the title, provided title insurance, and obtained old and new lender instructions.

After all unsettled walk-through issues are resolved, the attorney will explain the following:

- Deed of trust or mortgage
- Deed of trust note or mortgage note
- VA, FHA, or lender forms
- Settlement sheets

You and the seller will then sign all necessary forms. You will also pay the balance of the down payment and buyer's closing costs with a cashier's or certified check.

## **Open Look At Closing Costs**

Under the Real Estate Settlement Procedure Act (RESPA), you will be given an estimate of closing costs by the lender, in advance of the settlement. In addition, the lender will require an appraisal fee and a credit report fee in advance of the settlement.

Closing costs usually average between 3% and 7% of the sales price. Typical closing costs include:

- Loan origination fee
- Mortgage insurance premium
- Attorney fees
- Owner and lender title insurance
- Recording fees
- County tax stamps
- State tax stamps
- Survey fees

In certain cases, some of the closing costs may be paid by the seller. This is particularly true for new housing, where the seller is the builder.

A few other expenses, not required to be listed under the law, may also have to be paid at closing. These include advance deposits held in escrow for real estate property taxes and insurance. The lender collects a portion of these every month and then pays the insurance and taxes when they are due.

Sometimes closing costs can amount to a sizable sum. Remember that some of the items are tax deductible. The loan origination fee, prepaid interest, and property tax adjustments may be such items.

## **Congratulations**

Once the house keys are transferred, you are the proud owner of your new home. Congratulations!

# Real Estate Investing

In the market, stable industries have been shaken, dot coms have become dot bombs, and tech stocks have plummeted. However, one commodity has stayed the course and remained solid—investment property.

There are many beneficial reasons to invest in real estate:

- Real estate values continue to rise during an unstable economy.
- Property can have a higher yield than bonds and other stable investments.
- Depreciation of property and deductible expenses may lower your taxes.
- Rental property revenue has historically increased at a steady rate.
- Rental income can be used to offset expenses.

Syreeta Saunders-Keys is able to help you with all of your real estate investment needs. Call today for a free consultation.

# Glossary

**Agent**

A person acting on behalf of another.

**Agreement of Sale**

A contract in which a seller agrees to sell and a buyer agrees to buy, under certain specific terms and conditions spelled out in writing and signed by both parties. Also known as contract of purchase, purchase agreement, sales agreement, or binder.

**Annual Percentage Rate (APR)**

The quoted interest rate on a loan plus all additional service and finance charges associated with the loan, including those paid at the time of closing and those paid over the term of the loan. The APR is usually slightly higher than the note rate.

**Appraisal**

An expert judgment or estimate of the quality or value of real estate as of a given date.

**Assessed Value**

The valuation placed on property by a public tax assessor as the basis for taxes.

**Bill of Sale**

A document which transfers personal property.

**Certificate of Title**

A document signed by a title examiner or attorney, stating that the seller has a good, marketable, and insurable title.

**Closing Statement**

A document which details the net amount of money a buyer and seller must pay to complete the purchase of real estate. Also called settlement sheet or HUD-1 statement.

**Commission**

Payment to a real estate broker for services performed.

**Convey**

To transfer title of property from one person to another.

**Deed**

A document which transfers title to real property from one owner to another.

**Deed of Trust**

Like a mortgage, a security instrument whereby real property is given as security for a debt. However, in a deed of trust there are three parties involved: the borrower, the trustee, and the lender (or beneficiary).

**Earnest Money**

A deposit given to the seller, and usually held in escrow, by a potential buyer to show they are serious about buying a house.

**Equity**

The difference between the current market value of a property and the debts against it. In general, sales prices minus mortgage balance equals equity.

# Glossary (continued)

**Fixture**

Personal property which is permanently attached to real property, such as lighting, medicine cabinets, and mantels. Fixtures are included when the property is sold.

**Hazard Insurance**

Protects property against damages caused by fire, windstorms, and other common hazards.

**Listing Agreement**

A contract between a homeowner (as principal) and a licensed real estate broker (as agent) by which the broker is employed to market the property within a given time and the homeowner agrees to pay a commission. Also called a listing contract.

**Market Value**

The highest price a ready, willing, and able buyer will pay, and the lowest price a ready, willing, and able seller will accept. Market value is the basis for the listing or asking price.

**Market Price**

The actual amount for which a piece of property is sold. Also called sales price or purchase price.

**Mortgage**

A loan to purchase a house where a claim, or lien, against the house is given by the buyer to the lender as security.

**Mortgage Note**

A written agreement to repay a loan. The agreement is secured by a mortgage, serves as proof of an indebtedness, and states the manner in which it shall be paid. Also called a deed of trust note.

**P.I.T.I.**

Principal, interest, taxes, and insurance. Most residential mortgage payments include P.I.T.I. Also called carrying charges.

**Points**

One percent of the amount of the mortgage. Also called discount points.

**Prepayment Penalty**

Penalty for paying a mortgage note or deed of trust note before it actually becomes due.

**Principal**

Principal has three definitions in real estate:

- A capital sum lent on interest.
- One who appoints an agent to act on their behalf.
- Either party to a contract.

# Glossary (continued)

## **Property Management**

Managing real estate including selecting tenants, leasing space, collecting rent, and repairing property.

## **Prorate**

To distribute proportionally. Property taxes, insurance, or condominium fees are often prorated at settlement.

## **Sales Associate**

A person with a real estate license and associated with a specific real estate broker. Also called an agent.

## **Settlement**

The conclusion of a real estate transaction where the deed is delivered, notes are signed, and funds are disbursed. Also called closing.

## **Survey**

A map or plat made by a licensed surveyor showing land with its elevations, improvements, boundaries, and its relationship to surrounding tracts of land. A survey is often required by the lender to confirm a building is actually sited on the land according to its legal description.

## **Title**

A document that indicates rights of ownership and possession of a particular property.

## **Title Abstract**

A summary of the public records relating to the title of a particular piece of land. An attorney or title company reviews an abstract or title to determine whether there are any title defects.

## **Title Insurance**

Protects lenders and homeowners against loss of their interest in property due to legal defects in a title.

## **Title Search or Examination**

A check of the title records, generally at the local courthouse, to make sure the buyer is purchasing a house from the legal owner and there are no liens, overdue special assessments, or other claims.

## **Transfer Tax**

State tax, local tax (where applicable), and tax stamps (in some areas) required by law when title passes from one owner to another.

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