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Home Buying Tips



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PRE-APPROVAL

Once you narrow down which type of lender can best meet your needs, the next step is to get preapproved for a loan. Pre-approval is not the same as requalification.

What's the difference between pre-qualification and pre-approval?

In the world of real estate, the terms "prequalification" and "pre-approval" are often used interchangeably. But they have different meanings.

Pre-qualification is an estimate of how much you can afford in a mortgage payment. It is based upon the information provided by the borrower, which will later be subject to the approval process and additional information, including a credit report, appraisal, and income verification. The information provided by the borrower is not routinely verified as part of the pre-qualification process.

Pre-approval, on the other hand, is a firmer commitment on behalf of the mortgage company. Obtaining pre-approval is a more formal process that includes a credit check and employment verification. During a pre-approval, the mortgage company does all the work of a full approval except for the appraisal and title search. The lender obtains a credit report to verify monthly payments on installment loans and credit cards, and to check payment history on these loans.

If you've been pre-approved for a loan, you can shop for a house with more certainty and less anxiety because you'll be able to sail through the entire process without having to worry about whether the mortgage will be approved. Additionally, the seller is likely to view you as a more capable buyer. This can give you an advantage as a buyer in the marketplace, especially when the seller is considering multiple offers. However, neither a pre-approval nor a pre-qualification means you are guaranteed a mortgage.

Lenders still need to look at property appraisals, verify information, and, in many cases, re-check credit before agreeing to make a loan. Still, it's worthwhile to obtain pre-approval at the beginning of the buying process to know how much home you can afford and to avoid the headaches and embarrassment of not qualifying for a home you have under contract.

If you intend to obtain a pre-approval, you should begin rounding up information that the lender will need in order to process the loan. The checklist on the next few pages may be useful to you as you compile this information

FINDING THE PERFECT HOUSE!

Once you've evaluated your priorities, it's time to hit the streets with your search criteria. If you've done your preparation to get to this point, the actual physical search for your home can be short and sweet.

Here's the process we follow to find the homes that meet your guidelines:

1 The first thing we will do is put the given specifics into the computer. Within a few minutes with the aide of MLS (Multiple Listings Service) we will be able to print out a listing of the houses that match the desired profile.

2 When we determine which properties you actually want to view, in keeping with our plan, be sure to bring a small notebook so you can make a record of critical details for each of the homes we visit.

3 For each house you visit that appeals to you, make sure to obtain the answers to the following questions:

General

- Is the asking price comparable to other houses in the neighbourhoods? If not, is it higher or lower?
- Is the existing mortgage assumable?
- What is required down payment amount?
- What are the annual property taxes?
- Will the taxes increase with the transfer of deed and a new market price?

Outside

- What is the address of property?
- Is the yard size suitable?
- Are there landscape details?
- What is the level of grounds maintenance that will be required?
- What is the age of the home, and does it look it?
- What is the structural condition?
- Are any visible major repairs or improvements that should be made?

Inside

(Make a sketch of floor plan)

- What is the total number of rooms and baths on each floor?
- Any there extra features such as an intercom, security system, central air, or multiple fireplaces?
- Are the appliances built in?
- Is there adequate insulation?
- Is there weather stripping or storm windows?

Major systems

- What is the age/condition of each major system (plumbing, electrical, heating, and cooling)?
- What type of fuel is the home heated with?
- What is the average monthly utility cost?

Do not be surprised if the perfect house is the first one you visit. On the other hand, do not be disappointed if, after looking at a dozen houses, you still have not found the right one for you.

We will keep looking until we find the house that you want to call home!

3 Negotiating a Contract

Now that you've found your dream home, what is the next step?

First, we'll sit down and work up an offer, otherwise known as a contract. You will want to review it carefully to be sure it states your terms exactly, how much you want to offer, and any applicable contingencies.

Once you, as the buyer, and the seller reach an agreement and sign an offer reflecting that agreement, you have a legally binding contract.

Before we get out the pens and pencils, it is important to be aware of the possible scenarios that can arise while negotiating with a seller:

The seller can accept your offer, reject your offer, or execute a counter offer.

Don't be surprised if you and the seller initially do not see eye-to-eye on every issue.

The seller may deliver back to you a counter offer modifying certain terms that are not acceptable to him or her. Typical counter offers include modifications of the purchase price, closing date, possession date, and/or inclusions, although any term(s) of the contract can be countered. You will then have to decide whether the new terms will be acceptable to you. It is not uncommon for negotiations to go back and forth several times before both parties agree to the terms.

Generally, you are in a stronger bargaining position if you have already been preapproved for a mortgage, are not selling a house at the same time, and have not loaded your offer with contingencies. If we are experiencing a "seller's market," you may have to offer at least the list price and possibly more to come in at the top among multiple buyer offers.

Your offer will need to be accompanied by deposit money as well as a letter from your lender indicating your qualification to purchase. Deposit money typically equals between 1% and 3% of the purchase price. Not only does deposit money indicate your sincere interest in buying but also is often necessary for a contract to be legally binding. Buyers often ask if they are at risk of losing their deposit money, and, no, your deposit money cannot be lost as long as you do not default on your contract. Your deposit money will be credited to you at closing or returned to you if the contract is terminated in accordance with its terms.

When an agreement is reached on all the issues, and both the seller and you as the buyer have signed the offer, you are both under a legally binding contract. The search is over and now it's time to take the necessary steps to ensure the smooth and successful closing:

- 1) Hire a professional home inspector;
- 2) Find the right Lawyer for you
- 3) Remove all Conditions.

THE HOME INSPECTION

The next step is the home inspection. You will have the opportunity to hire an inspector to evaluate the condition of the home. The goal of a home inspection is to give the client a better understanding of the physical condition of the structure and the systems than would otherwise be known.

Typical homes take 3-4 hours to inspect. When the client arrives the inspector often presents a pre inspection agreement to be signed followed by payment. A good inspector then gives the client an overview of the inspection process and invites the client to accompany him.

Though the order may vary, the inspector, at minimum, visually inspects each of the following:

- Interior (non-cosmetic)
- Attic
- Foundation
- Chimney
- Framing
- Kitchen Appliances
- Roof
- Windows
- Laundry
- Bathroom
- Plumbing System
- Electrical System
- Heating System
- Air Conditioning System

Additional items such as pools, spas, barns and other outer structures, docks and sea walls, well flow, wood destroying insects, lawn sprinkler systems, fences and gates, and EIFS (exterior insulation & finish systems) may be offered by the inspection company, sometimes at an additional fee.

The inspection company may also offer environmental services such as water testing, radon testing, lead testing, or asbestos testing.

Upon completion of the inspection, the inspector should give the client a summary of what was discovered and an opportunity to ask questions. The client then receives a signed written report of the findings. The report is the client's property; no other party is entitled to see it

THE APPRAISAL

Once you have determined that there are no defects on title and all inspection concerns have been resolved, it is time to order an appraisal.

An appraisal is an estimate of the value of a property, made by a qualified professional called an appraiser. An appraisal of the property you're going to purchase is as important as your credit history in obtaining a mortgage, and it is also a critical factor in determining the size of the loan the bank or mortgage company will approve.

After all, the property you are purchasing serves as collateral for the loan. Although the primary goal of the appraisal is to justify the lender's investment, it also protects you from overpaying. The lender usually hires the appraiser and charges the buyer a fee for the service. You will be refused a mortgage, or offered a smaller amount on the mortgage, if the appraisal falls short of the amount you wish to borrow. Your contract will be contingent on whether the property's appraisal comes in at or above the purchase price you and the seller have agreed upon.

If possible, you will want to complete your home inspection prior to ordering the appraisal. There is no sense in paying an appraisal fee if issues resulting from the inspection cause the contract to be terminated.

LAWYERS OFFICE

After the searching for a home is done, the negotiations have been completed, the house has been inspected, and the mortgage has been applied for and committed to, the focus suddenly turns to the closing, which may also be called “settlement” or “escrow,” depending on your locality. Closing is the legal transfer of ownership of the home from seller to buyer. It is a formal meeting that most parties involved in the transaction will attend. Closing procedures are usually held at the lawyer’s office. Your closing officer will coordinate the signing of documents and the collection and disbursement of funds.

In order to ensure a smooth closing you will want to spend some time preparing for the big day:

It is a good idea to conduct a “walk-through” of the home prior to closing. This will give you an opportunity to see that the condition of the home is the same as it was at the time of contract. Additionally, you will be able to ensure that any repairs agreed to by the seller, based on the inspection, have been completed.

Prior to closing, you will have obtained a homeowners insurance policy and provided this information to your lender and/or closing agent.

Ask your lawyer what other items you may need to bring to closing. Many provinces require a valid driver’s license or other acceptable form of identification. If you’ve recently married or divorced, you may need to bring additional documentation as well.

With all the preparations in place, you are just a few signatures away from owning your home!