



Common Questions from First-time Homebuyers

It's ok to ask about what you do not know, that is why we are here to help! In case you are not sure what to ask, here are a few questions to get you started:

1. Why should I buy, instead of rent?

Answer: A home is an investment. When you rent, you write your monthly check towards someone else's well being. But when you own your home, part of your monthly payments help build your own equity (imagine putting money into the walls of your home like a bank. Equity is determined by taking the current market value of a home minus the outstanding mortgage balance), you can deduct the cost of your mortgage loan interest from your federal income taxes, and usually from your state taxes, and the value of your home may go up over the years, further increasing your investment. You can also deduct the property taxes you pay as a homeowner. Finally, you'll enjoy having something that's all yours one of the greatest immeasurable benefits of ownership.

2. Can I become a homebuyer even if I have I've had bad credit, and don't have much for a down-payment?

Answer: You may be a good candidate for one of the federal mortgage programs. Start by contacting one of the HUD-funded housing counseling agencies that can help you sort through your options. Also, contact your local government or lender to see if there are any local home buying programs that might work for you.

3. Should I use a real estate broker? How do I find one?

Answer: Using a real estate broker is a very good idea. All the details involved in home buying can be overwhelming, in addition to being vital at every step, especially considering there is on average a total of 189 specific tasks for each transaction from start to finish. A good real estate professional can guide you through the entire process and make the experience much easier while at the same time providing increased exposure to properties that fit your search, and expert negotiating for better terms and price. Best of all, buyer brokerage is a free service in most markets such as Chicago because the payment comes from the home seller - not from the buyer.

4. Am I a Good Candidate to Purchase a Home?

Answer: To start, there are generally three main questions you want to ask yourself as a potential candidate. Your Homescout agent will help analyze your situation to determine your best options. The questions are:

- i. Do I know what I would need and want in a home?
- ii. Do I have the proper financials to purchase the home that meets my needs?
- iii. Do I see myself in Chicago in the next 12, 24, and 36+ months?

5. How much money will I have to come up with to buy a home?



Answer: That depends on a number of factors; including the cost of the house and the type of financing given market and economic conditions. In general, you need to come up with enough money to cover three costs:

- i. **Earnest Money*** (usually 5-10% of purchase price) - this is the deposit you make on the home once all terms are agreed upon, like a security deposit to take the unit off the market
- ii. **Down Payment*** (generally 0-20% of purchase price) - a percentage of the cost of the home that you must pay to gain ownership
- iii. **Closing Costs*** (estimate around 1.5-2.5% of purchase price) - the costs associated with processing, paperwork, taxes, fees etc to buy a home

*When you make an offer on a home, your real estate broker will put your earnest money into an escrow account. If the offer is accepted, your earnest money will be applied to the down payment or closing costs. If your offer is not accepted, your money will be returned to you (another reason to use a realtor to ensure the legal documents used to present the offer will cover your interest in order to get this money returned).

*The more money you can put into your down payment, the lower your mortgage payments will be. Some types of loans require 10-20% of the purchase price. That's why many first-time homebuyers turn to special loan programs, such as FHA loans (Federal Housing Administration government backed loans) which require only 3% down - and sometimes less with flexible credit requirements.

*These costs cover various fees your lender charges and other processing expenses. When you apply for your loan, your lender will give you an estimate of the closing costs, called a Good-Faith Estimate

6. How do I know if I can get a loan?

Answer: Talk to your Homescout agent about using simple mortgage calculators to see how much monthly mortgage payments you could make. Another good idea is to get pre-qualified for a loan. That means you go to a lender and apply for a mortgage before you actually start looking for a home. Then you'll know exactly how much you can afford to spend, and it will speed the process once you do find the home of your dreams.

7. How do I find a lender?

Answer: You can finance a home with a loan from a bank, a savings and loan, a credit union, a private mortgage company, or various state government lenders. These are generally supplied by the bank, a mortgage broker, or a mortgage banker*. Homescout works closely with a team of preferred licensed professionals known for quality of service, trust, and satisfaction, ask your Homescout agent for a list of referral partners.

*Shopping for a loan is like shopping for any other large purchase: you can save time and money by looking for the best value products and the right service professional. Different lenders can offer quite different structures, interest rates and fees and you can talk with several lenders before you decide. Many lenders need up to 3-6 weeks for the whole loan approval process, so it is crucial to visit this step early in the process.

*Further defined, a mortgage broker is an individual or company which brings borrowers and lenders together whereas a mortgage banker originates, sells, and services mortgages in the secondary mortgage market.



8. In addition to the mortgage payment, what other financial aspects do I need to consider?

Answer: In addition to your initial down payment, closings costs, and monthly mortgage payments (principal and interest) you will have your Homeowners insurance, Real Estate taxes, and if buying a condo*, condo association fees. You will also have your monthly utilities, which will differ depending if you have condo assessments and what they include.

*If buying a within a Condominium Association, other financials will also include the building reserves (how much money the association has for any projects) and if any special assessments are coming in the future (projects to improve the development that are not covered by reserves, so an additional cost is levied to the owners). The association fees are determined by the condo association for the betterment of the property, and the board is comprised by home owners, so though increases in dues are likely to increase over time, it will be for the best of the association. Your agent will be sure to inquire about each of these issues to further determine each aspect of financial implications with the individual home.

9. When I find the home I want, how much should I offer?

Answer: Again, your Homescout agent is your best resource. There are several things you should consider: 1) is the asking price in line with prices of similar homes in the area? Your agent will be able to run a market analysis to determine area statistics. 2) Is the home in good condition or will you have to spend a substantial amount of money making it the way you want it? 3) How long has the home been on the market? If it's been for sale for awhile, the seller may be more eager to accept a lower offer. 4) How much mortgage will be required? Make sure you really can afford whatever offer you make. 5) How much do you really want the home? The closer you are to the asking price, the more likely your offer will be accepted.

10. What if my offer is rejected?

Answer: They often are and countered with a counter offer. But don't let that stop you. Now you begin negotiating. Your Homescout agent is here to best leverage your position and help determine your approach. You may have to offer more money, or change closing date, but you may ask the seller to cover some or all of your closing costs or to make repairs/offer credits that wouldn't normally be expected. Often, negotiations on a price go back and forth several times before a deal is made. Just remember - don't get so caught up in negotiations that you lose sight of what you really want and can afford!

11. What will happen at closing?

Answer: Closing is the final step in transferring ownership of real estate property from real estate seller to real estate buyer. This is the settlement of documents, monies, and transferring of deed. This is accompanied by the buyer and seller's attorneys, the closing agent of the title company, and your Homescout agent. This is also where you get handed the keys to your new home!

Ask away for any additional inquiries!!!