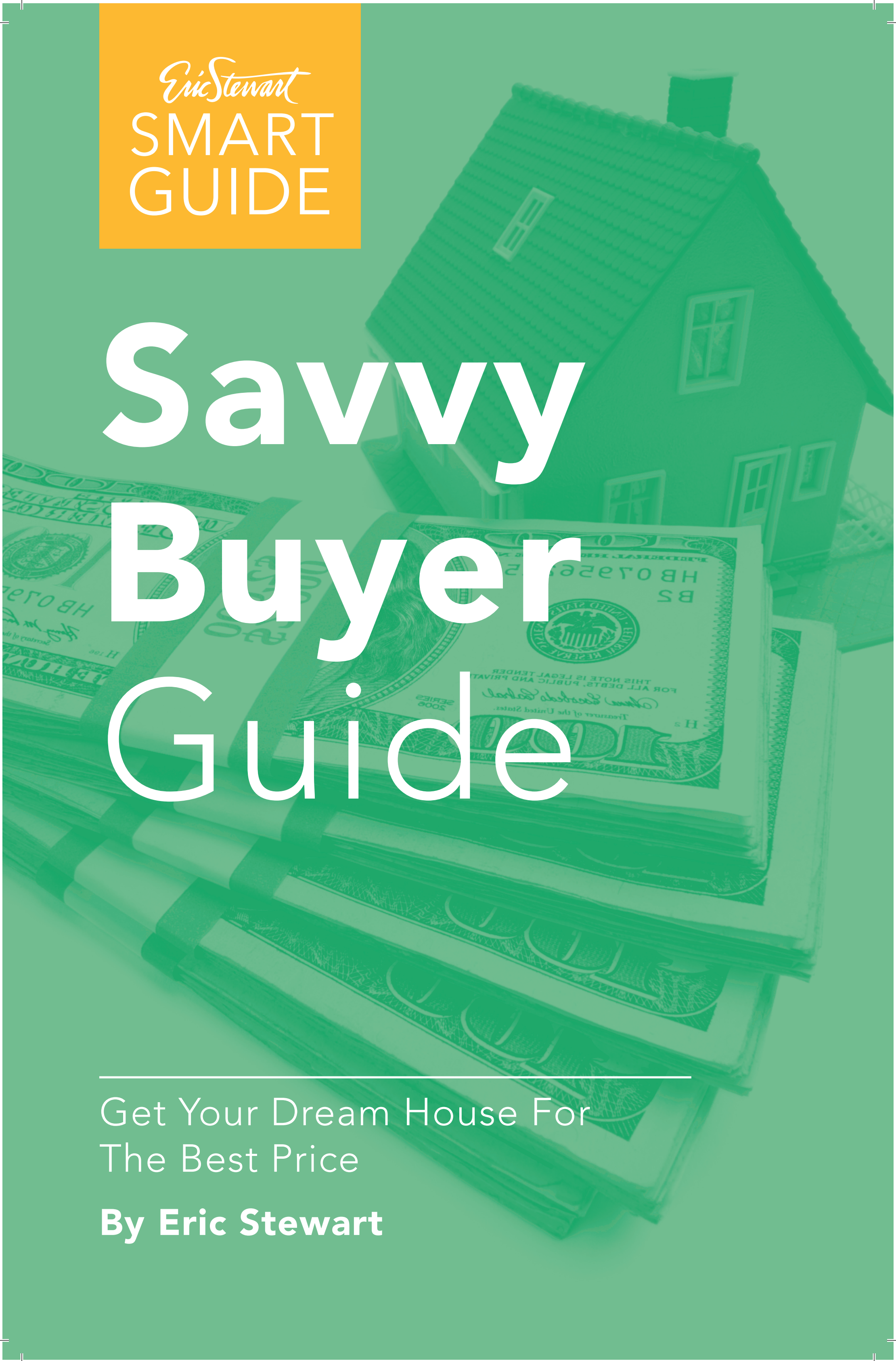

Eric Stewart
SMART GUIDE

Savvy Buyer Guide

Get Your Dream House For The Best Price

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Headshot photo compliments of Joe Henson Photography

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A Note From Eric Stewart

Dear Future Buyer,

Here is your copy of the Savvy Buyer Guide. After witnessing home buyers facing the same questions and challenges year after year, I put together this guide to help buyers avoid these common struggles. I hope that you find it helpful as you prepare to buy a home!

Here are just a few of the benefits of buying through the Eric Stewart Group:

1. Personal, expert assistance from a team with decades of experience.
2. Regular email updates on all the listings that match your search criteria.
3. Our Preferred Local Vendor booklet.
4. Our Guaranteed Buy Program: If you buy a listing sold by the Eric Stewart Group, we guarantee to sell your current home in 120 days or we will buy it!
5. Genuine care from agents who adhere to a strict code of ethics. You get professionalism, honesty, and loyalty.

If reading this information raises any questions pertaining to your unique real estate needs, feel free to call us today at 1-800-900-9104.

Enthusiastically,

I am not an attorney or an accountant. I am licensed to advise on real estate matters only. Any ideas presented here are the expressed opinion of Eric Stewart and should be treated as such.

Why Buy?

What drives people to buy new homes? The universal answer is the desire to change their lives.

Perhaps you want a safe place in which to raise a family. Maybe you are looking for a more convenient location, close to other people and urban centers. Or the apartment you live in is too small. Or there are better opportunities for your kids in a new town. The list of reasons to move is as endless as it is varied.

However, there are certain benefits to buying and owning a home that are common to everyone, particularly in regard to finances. When you own a home, you can save money on taxes, you can accumulate equity, and, depending on the market, you can make money on the sale of your house.

Of course, not everyone is in a financial position to purchase a home. Hurdles like taxes, insurance, and utilities can often make home ownership seem daunting. Let's take a look at some financial considerations.

Equity & Selling Your House

Equity is a key concept to consider when deciding to buy a home. Equity is the value of your home when you subtract any liens against the property. A lien is any type of loan or mortgage where your home is used as collateral. Thus: Equity = Sales Price - Mortgage/Liens.

For example, let's say that a couple purchases a home for $300,000. The couple puts a $30,000 deposit on their home and takes out a mortgage loan of $270,000. Based on these numbers the couple currently has $30,000 of equity in their home. 10 years later, their mortgage has been paid down to $200,000 and the house has increased in value by 50% and is currently worth $450,000. Our homeowners now have $250,000 of equity in their home: Not a bad return on their initial investment.

In this way, you can increase your equity: Purchasing a home is an investment, unlike renting.

Tax Advantages

Homeowners can deduct mortgage interest and property taxes from their yearly federal income taxes. This can be a sizeable sum in the first years of home ownership due to the fact that the highest amount of interest is paid on your mortgage during the first few years. Also, if you paid any "discount points" (see page 11) when you arranged your loan, the cost for those points can be deducted from your federal income taxes in the year you purchased your home.

Additional Reasons for Buying

The financial reasons for buying a home are apparent, but there are other, intangible issues to consider when determining whether or not to buy.

- **Experience**: For many people, owning a home is a rite of passage to becoming a responsible adult.
- **Privacy**: If you have ever lived in an apartment complex, this benefit doesn't require further elaboration!
- **Community**: The idea of a neighborhood allows people to feel a part of a positive atmosphere to which they can contribute.
- **Control**: You own it! You decide how to landscape, remodel, and decorate (within the bounds of any Home Owners Association rules).

Renting vs. Buying

Traditionally, renting a home is a less expensive option than buying one. However, based on the ever increasing cost of renting in the Washington D.C. area and the long term increase of property values, buying a home is usually a better financial decision. If you don't have cash for a down payment, consider these options:

- **Lender-assisted down payment**: Your lender may loan your down payment to you, securing it against an asset (such as a car that you own).
- **Seller-assisted financing**: Some sellers may be willing to hold a second mortgage for you, allowing you to pay the down payment in monthly amounts.

The Economics of Buying a Home

Now that you have a sense of why buying is the best option for you, let's have a look at some practical considerations. The first step in making a major purchase is understanding what you can afford and how you will pay for it. In this section, we will give you tools that will help you understand just how much you can afford and how to put yourself into a financial position to buy a home.

What Can I Afford?

First, consider the amount of money you will be able to pay each month for a mortgage payment, after accounting for all of your other obligations. Lenders have calculation guidelines that help make that determination.

The **Debt to Income Ratio** is the percentage of your **gross monthly income (GMI)**, after taxes, that is used to pay your monthly obligations.

There is a "front" and "back" debt ratio and it is usually shown as "33/38:"

- The **front end ratio** is the percentage of your GMI that is used to pay all of your housing-related costs, including principle, interest, taxes, insurance, property insurance, etc.
- The **back end ratio** accounts for your consumer-related debt, including car payments, credit card debts, student loans, etc.

? **A common guideline that lenders use is a 33/38 Debt to Income Ratio. That means that a borrower's housing costs will take up 33% of their GMI and after adding any monthly debt payments the percentage would increase to about 38%.**

We've provided a worksheet for you on the next page to assist you in breaking down your expenses in relation to a mortgage.

Front End & Back End Ratio Worksheet

MONTHLY INCOME	
Monthly net (take-home) pay	$
Annual bonuses and overtime, divided by 12	$
Other annual income, divided by 12	$
TOTAL MONTHLY INCOME	$
FRONT END MONTHLY OBLIGATION	
Mortgage payment (include property taxes and insurance) or rent	$
Monthly loan payment	$
Monthly car payments	$
Minimum credit card payments times two	$
Student loan payments (if applicable)	$
Monthly child support payments (if applicable)	$
Other monthly loan amounts (if applicable)	$
Revolving credit payments (furniture, appliance loans, etc.)	$
TOTAL MONTHLY DEBT PAYMENTS	$
DEBT TO INCOME RATIO	
$\frac{\text{Total Monthly Debt Payments}}{\text{Total Monthly Income}}$ = Debt to Income Ratio	%

Financing Your Home

When lenders start the pre-qualifying process, they often work backwards to figure the maximum mortgage payment that a home buyer can afford. This is how it's done:

1. Understand your monthly income.

Lenders only count what they can document through paperwork. So, your monthly income will be evaluated depending on how you are paid. Is your income hourly, salaried, commissioned? Are there bonuses or is there overtime pay?

2. Use the Debt to Income Ratio.

Use the 33/38 guideline to estimate how large a mortgage you can afford; this will help you determine how much money your lender will give you.

3. Determine how much money you are willing to invest upfront.

This will help you find a range of what you can afford. For example, if you can qualify for a $200,000 loan and you have $50,000 dollars to use as a down payment, you can afford a $250,000 home.

! **If you are self-employed or receive 1099 income, lenders will need a two-year track record of what you declare to the IRS. You can take the average annual income for two years and divide by 12.**

! **These concepts are just general guidelines that will assist you as you start your home search. Please consult with a qualified lender to verify your loan qualifications.**

Mortgage Basics

When the bank issues a mortgage, the property itself is used as security to ensure repayment; the lender holds the title or deed to the property either directly or indirectly until you have repaid the entire amount, plus interest. There are many different types of mortgages, ranging from **fixed rate mortgages**, in which the interest rate does not change, to **adjustable rate mortgages**, in which the interest rate is pegged to a fluctuating market index, allowing it to rise or fall over time as the economy changes.

Between these two extremes are a variety of other options that attempt to blend the advantages of the consistency of fixed rate mortgages with the flexibility of adjustable rate mortgages.

The length, or term, of a mortgage, is also an important factor to consider. You can choose between short-term mortgages that need to be renegotiated every few years (called "balloon" mortgages), and long-term mortgages where you lock your loan in for up to 30 years.

Before committing to any type of mortgage, sit down with a mortgage professional and examine the advantages and disadvantages of all available options and determine which product is best suited to your current situation and future plans.

The most common types of mortgages are obtained through either a mortgage banker or a mortgage broker. What's the difference? A **mortgage banker** is the lender that will be handling your loan directly, while a **mortgage broker** serves as a "matchmaker" between you and the lender. Mortgage brokers make selections from a pool of lenders to find the right match for the borrower. However, it is the lending institutions that make the ultimate credit decision.

Components of a Mortgage

Mortgage Amount: The total amount of money to be borrowed by the purchaser and applied toward the price of the property.

Down Payment: The initial amount of money paid on the property by the purchaser (not including legal fees or other acquisition costs).

Interest Rate: The cost of borrowing money, charged by the lenders, calculated as a percentage of the outstanding amount owed, usually compounded on a monthly basis.

The Term: The period of time during which the loan contract is active and at the end of which the balance of the loan becomes due—usually 15 or 30 years.

Amortization Period: The period of time after which the loan will be paid off, provided all monthly payments are made on time and in full. The term and the amortization of a mortgage are often the same, but do not need to be. For instance, instead of having a 30-year term and a 30-year amortization, the borrower could opt for a 10-year term. At the end of each term, the borrower would have to refinance the loan, necessitating renegotiation of the interest rate and payment schedule with the lender.

Discount Points: Additional money the borrower may pay to the lender at settlement to get a lower interest rate on the loan. The cost of one point equals 1% of the amount borrowed. Usually, for each point paid on a 30-year loan, the interest rate is reduced by about 1/8th (or 0.125) of a percent.

Prepayment Privileges: The right of the borrower to pay off all or part of the outstanding principal before it comes due. These privileges are usually set out in the initial mortgage negotiations between the borrower and lender.

Ten Types of Mortgages

As with any type of lending information, we always encourage you to consult a lending professional to find out what lending option best fits your situation. Here we have identified five basic structures into which most mortgages fit to get you started.

- **One-Year Adjustable Rate Mortgage**: A one-year ARM has payments that adjust once each year and the payments are calculated over a 30-year period. Typically, this type of loan has the lowest initial start rate and can therefore help you qualify for a larger loan amount.
- **3/1, 5/1, 7/1, and 10/1 Adjustable Rate Mortgages**: These loan types have fixed payments for their first increments and then turn into 1-year ARMs, adjusting every year thereafter. The loan payments are calculated over a period of 30 years.
- **3/3 ARM**: The 3/3 ARM adjusts every three years for the life of the loan. The loan payments are calculated over a period of 30 years.
- **Five and Seven year Balloon**: The loan payments on a five or seven year balloon are calculated over a 30-year period, but the loan has a life of only the specified number of years. At the end of five or seven years, the balance of the loan is due.
- **15-year or 30-Year Fixed Rate Loan**: Payments on these loans are calculated over a period of 15 or 30 years and have a fixed interest rate and payment for the life of the loan. If you have limited funds for a down payment or you are a veteran, ask your loan officer about an FHA or VA 30-year loan.

Applying for a Loan

You don't have to dread the thought of applying for a loan, if you know how to prepare for the process. Be sure to get pre-approved for a loan before you start looking at houses. That way, you will know what you can afford and you can save time and energy in your search. You'll need to gather the following information for the loan application:

Pre-approval

As with any type of lending information, we always encourage you to consult a lending professional to find out what lending option best fits your situation. Here we have identified five basic structures into which most mortgages fit to get you started.

- **Employment Information**: Include the basics—name, address and phone numbers of your employer(s).
- **Pay-stub**: Make sure it's the most recent one you have.
- **Previous Employment Information**: You will need this if you have been with your present employer less than two years. You will need all pertinent information from your previous jobs.
- **Other Income**: This can include alimony, child support, VA benefits, Social Security benefits, rental income, etc.
- **Access to Credit Report**: This can include any current mortgages, charge accounts, additional loans (student loans, installment, etc.), and auto loans.
- **1099 Information**: If you are self-employed or a part owner of a company you will have to provide year to date profit and loss statements, and complete business and personal tax returns for the past two years. You will also need tax returns if you are using any commissions or overtime pay as a qualification element.

Formal Loan Application

- **Contract for Sale**: A ratified contract with all addendums, a copy of the deposit check, and a copy of the listing data sheet.
- **W2 Forms**: For the past two years.
- **Checking and Savings Account information**: Account numbers and balances for two months.
- **Additional Assets**: Stocks, bonds, cash value of life insurance, vested interest in retirement plans.

Eric Stewart's Guaranteed Buy Program

For most buyers, the ability to finance a new home is contingent on the profit from selling a current house. Buyers can fall into the trap of procrastinating because of the risk of signing a contract without the assurance of their properties being sold. Guaranteed buy programs free buyers' minds from the weight of this contingency.

This means a third party guarantees to sell your home within a certain amount of days on the market, or the third party will buy it at a previously agreed-to price. This way, you can focus on searching for a new home, knowing that your house is already under contract with that third party. Also, very importantly, offering a guaranteed buy program will attract many more purchasers who may not have been able to buy without it.

Most guaranteed buy programs are offered through corporate relocation companies. However, there are a handful of Realtors® who will risk taking this position for the potential reward of selling two homes and to grant you peace of mind. Let's take a look at what a Realtor® can do for you.

Selecting a Realtor®

"Real estate agent" and "Realtor®" are not always interchangeable terms. A real estate agent becomes a Realtor® when he or she joins the National Association of Realtors and agrees to subscribe to the NAR code of ethics.

So, why hire a Realtor®?

A Realtor® serves as a trustworthy guide through the pitfalls of the purchasing process. We will help you through home inspections. We will negotiate the terms of the contract on your behalf. We will be your advocate through each of the many steps of the purchasing process. Our experience with thousands of sales over the years will prove invaluable as you search for the perfect home.

? **If you want to find out more about the strict code of ethics that we have agreed to follow, please visit the NAR Website at www.realtor.org.**

Services Realtors® Provide

Agents perform three roles for you. We will coach you in getting ready, we will market your house and negotiate for you, and we will coordinate the escrow and closing.

1. **Lead your search**: Instead of wasting your time with random searches, good Realtors® will take all of the information that they gather with their questions and conduct a specific and strategic search for your new home. A professionally conducted search will assure you that the home you find meets all of your requirements.
2. **Prepare and negotiate the purchase agreement**: When a good Realtor® prepares an offer for the purchase of your next home, you can be sure that they will position your offer for the best possible outcome.
3. **Oversee the contract process**: The complex process of buying a home requires close monitoring. An equipped Realtor® will guide you through the process and get you to the settlement table with as few headaches as possible. Having reviewed the offer, your agent will assist you in complying with all the elements and conditions of the contract.

Understanding Agency Agreements

The idea of "procuring cause" is important to understand when paying commission. The agent with whom you have signed a buyer agency agreement receives the commission, regardless of who shows the home or who lists it.

Say, for example, that you are looking at a home that a certain agent has listed. However, you ask another agent to show you the home, and you sign a buyer agency agreement with them. If you make an offer on the home and it is accepted, the showing agent, not the listing agent, will receive payment, based on the buyer agency agreement.

Make sure you know who will receive the commission, especially if you have an interest in who gets it (based on your relationship with your agent).

Knowing What You Want

Now, lets move on to the fun stuff: Finding the perfect home!

A great place to start this process is understanding what styles of homes are available. Here are a few:

Colonial

Tudor

Victorian

Bungalow

Split-Level

Cape Cod

Rambler or Rancher

Split-Foyer

There are many different elements to examine when looking at prospective houses. If you have a large family, you may want to prioritize space. If you are single or married with no children, space may be less of an issue, but having an updated master suite is an absolute must. Location is also a vital consideration. If you have school-aged children, proximity to a decent school system will be high on your priority list, of course. If you work in a particularly busy part of the city, you will want to take commuter routes into account. It's all about your priorities.

Buyer Profile System

One of the most frustrating parts of shopping for a home is the time wasted looking at houses that don't interest you. In most cases, it is your agent who selects homes for you to look at, seemingly at random, the majority of which hold little or no interest for you.

The Eric Stewart Group has a solution: We want your criteria for your ideal home. We will send you information regularly about homes that meet your standards, allowing you to evaluate and pick the properties you want to visit. As Realtors®, we want to help you find the home that will best fit your needs, instead of wasting your time and energy.

This benefits you as the buyer because:

- You will receive regular mailings on all newly listed homes that match your criteria (including pictures).
- Once you have gone over this information, you get to choose which homes you are interested in.
- We offer this service at no additional cost, without obligation.

A Realtor® acts as an advisor, evaluating the elements you are looking for in a new home. On the next page you will find a worksheet to help you prioritize these elements.

Home Elements Worksheet

Price Range: from ________________ to ________________

Type/Style of Home: _________________

No. of Bedrooms: ______

No. of Baths: ______

PROPERTY	Priority			
Large Yard (one acre or more)	1	2	3	4
Fenced Yard	1	2	3	4
Patio or Deck	1	2	3	4
Pool	1	2	3	4
Garage (number of cars: ______)	1	2	3	4
Gas Heat Elements	1	2	3	4
Forced Air Furnace/ AC	1	2	3	4
Shed/Outside Storage	1	2	3	4
KITCHEN				
Eat In	1	2	3	4
Appliances Remain	1	2	3	4
Island	1	2	3	4
Newly Remodeled	1	2	3	4
BEDROOMS				
Master Suite	1	2	3	4
Private bath in Master Suite	1	2	3	4
Bedroom on Main Level	1	2	3	4
Fireplace in Master Bedroom	1	2	3	4

ADDITIONAL FEATURES	Priority			
Finished Basement	1	2	3	4
Formal Living Room	1	2	3	4
Formal Dining Room	1	2	3	4
Hardwood Floors	1	2	3	4
In-law Suite	1	2	3	4
Gas heat elements	1	2	3	4
Den	1	2	3	4
Sitting Room	1	2	3	4
Great Room	1	2	3	4
Family Room	1	2	3	4
LOCATION				
Schools	1	2	3	4
Access to Public Transportation	1	2	3	4
Commute	1	2	3	4
Access to Shopping	1	2	3	4
Access to Entertainment	1	2	3	4
Access to Parks and Play Areas	1	2	3	4

How to Win in Multiple Offer Situations

Have you found yourself facing fierce competition while attempting to buy a home?

If you have already lost a home or two to competitive offers and bidding wars, gearing up for another offer may seem hopeless. Thankfully, there are many ways you can increase your chances of getting your dream home, despite the competition. Sellers want the best offer, not necessarily the highest one, which gives you more chances to outshine the others while demonstrating the seriousness of your bid. Here are six ways to help you win your dream home:

1. Do Not Be Overwhelmed

In a competitive buying market, try not to take a loss personally. If you find a home attractive, chances are other buyers in the area do as well. Stressing or panicking about a loss can lead to a sense of missing out or desperation, which does not bode well for future buying attempts. Staying stressed can lead to impulsive decisions and poor decisions, leaving you with a sub-par property or higher financial payouts. Avoid settling for a home you aren't happy with by refocusing before looking at more homes and making another offer.

2. Base Your Buying Strategy on the Local Market

Many people base their knowledge of the real estate market on the national news and various home-buying or house-flipping reality television shows. In actuality, real estate markets are extremely local, and your offer strategy should reflect that. Many market dynamics vary among states, cities, and even neighborhoods, so use your Realtor® as a guide. Ask how multiple offers, closing costs, and contingencies such as home and termite inspections are handled in your area.

3. Ask about Specific Seller Terms

Before submitting an offer, your Realtor® can also help by reaching out to the listing agent and asking if there are certain terms the seller would like. This may include additional earnest money, a rent-back period following the sale, or shorter inspection and financing contingency periods. By meeting a few of the seller's wants and desires, your offer will immediately stand out against the competition.

4. Reach Out to the Seller on a Personal Level

There is a reason that most job interviews happen in person, because employers can tell a lot about someone simply by meeting them. Chances are that you will not meet the sellers before making an offer, but you can do something to stand out as more than just another buyer. Personalize the purchase by submitting a handwritten note or letter with your offer and financial documentation, telling them about yourself and your family. Share with the seller why you were drawn to the home, what you like about it, and why you want to live there. Be honest and authentic, and your personal appeal may sway the seller in your favor. Including a handwritten note will also give the seller a very strong sense that you are ready and willing to close the deal.

5. Indicate Financial Readiness

Chances are, you know either a seller or a buyer whose deal fell through because of financing issues. You can help relieve a seller's mind by indicating your financial readiness with your offer. If you are taking out a mortgage or other bank loan, provide the seller with a letter of pre-approval and a financial information statement. Depending on your bank or lender, ask for a letter that further states their confidence in your purchase ability.

If you have the financial means, you may also opt to pay in cash and provide a bank statement that indicates your financial ability to fund the home purchase. Sellers may be willing to accept a lower cash offer with more desirable and quicker closing terms. All of these moves will increase your credibility as a buyer as well as boost your chances of getting the home.

6. Increase Your Earnest Money Deposit

If you are willing to take a financial risk for the reward of your dream home, increasing your earnest money deposit is one of the best ways to stand apart from other bidders. If your offer is accepted, the money will go toward the home's down payment. In the meantime, increasing your earnest money demonstrates your seriousness and purchase commitment, prompting the seller to give your offer more consideration.

Two Bonus Ideas

Below are two bonus ideas should you find yourself in a truly competitive situation:

- If you have found your dream home and plan on a large down payment, then don't make the purchase contingent on the appraisal. After all, you believe in the value, right?
- Consider adding a clause in your offer that will beat the next best offer by a margin of money, such as $2,000 or $5,000, up to a specified amount. This is kind of like sniping on eBay.

After the Seller Accepts

Congratulations! You've accomplished your goal: You've found a home and the seller accepted your offer!

Now what?

Many times people can become overwhelmed with all of the things that happen after the purchase of a new home. Depending on the terms of your sales contract, the following things may have to be attended to:

Home Inspection: A home inspection uncovers issues that were not noticed when you first saw the home. A home inspection generally costs from $400 to $600 and generally takes between two and four hours. A good inspector will allow you to come along and show you any issues and how they might be corrected. The home inspector usually starts outside the house, looking at the grading of the property and the structural soundness of the home. The inspector then moves into the home to look at the electrical system, the plumbing system, the heating and cooling systems, the appliances, any attic areas, and the basement. When the inspection is completed, the inspector will issue a report. This is where your Realtor® takes over to negotiate what items you need to correct prior to closing.

? **Visit www.inspectamerica.com to find more information about the home inspection process and what to look for in a home inspector.**

? **See the Appendix for a list of the top 10 home inspection problems.**

- **Radon Gas Inspection**: Radon is an odorless and colorless gas that has been found in homes throughout the United States. Installing a radon mitigation system will draw the radon gas out of your home and disperse it into the air. *If you find radon in a home that you are buying, the seller is expected to pick up the cost of the system installation.* If you are buying a house that already has a radon gas mitigation system, clarify that it is working properly and that the levels are acceptable.

? **If you want more information regarding radon gas and its effects you can visit www.epa.gov/radon, where you will find a "frequently asked questions" section.**

- **Homeowner Association/Condo Association Documents**: You have the right to review any legal or financial documents connected to the community. You also have the right to cancel the contract based on these documents. The timeframe can vary by state, so check with your Realtor® to understand exactly how much time you have from the date you receive the documents to review them and make your decision. For example, in Maryland the time is five days, but in Virginia, the time is only three days. As with the inspections, the dates for reviewing these documents are hard dates and must be adhered to in the strictest sense.

Here are some areas that you should be paying special attention to when you review these documents:

- Fees - what they include and what potential increases are possible
- Rules and regulations - parking, trash removal, pets, property apprearance rules
- Pending suits against the association
- Anticipated major renovations to the community and special assessments

- **Appraisal**: A home appraisal helps the lender determine if the property is worth the sales price and is typically paid for by the buyer. Here are a few things that you will see:
  - Details about the property, as well as side-by-side comparisons with similar properties in the area
  - An evaluation of the overall real estate market in the area
  - Issues that the appraiser feels are harmful to the property's value
  - Notes about flawed characteristics of the property, such as a crumbling foundation
  - There are two common methods for appraising residential properties:
    - **The Sales Comparison Approach** involves the appraiser estimating the property's value by comparing similar properties that have sold in the area.
    - **The Cost Approach** uses known building costs to estimate how much it would cost to replace the house if it were destroyed. This is most useful for newer properties.

- **Termite Inspection**: The termite inspection is not conducted by the home inspector and is usually required by the lender. *Any infestation or termite damage that is found during the inspection must be taken care of by the seller of the property, unless you are purchasing the home in "as is" condition and the termite contingency is struck.*

- **Additional inspection/contingencies that may apply:**
  - Mold – Every house has mold, but only some kinds of mold are unhealthy
  - Lead based paint for house built prior to 1978
  - Septic and well inspections to be sure the septic tank is not leaking and is clean, and to be sure the water is potable (drinkable and healthy)
  - Survey of property boundaries to be sure encroachments from the neighbors don't exist
  - Structural – When evidence suggests an engineer may be necessary to ensure the home's foundation and structure are sound
  - Hazard Insurance

The Final Walk-Through

You have the right to conduct a final walk-through prior to settlement. This allows you to make sure that all of the appliances and systems are in working order and that the property is clear of trash and broom-cleaned. The property should be in the same condition it was when the contract was ratified. The final walk-through also allows the buyer to make sure that all of the home inspection items that were agreed to have been remedied to your satisfaction. Your Realtor® should coordinate this for you; it usually takes place within 24 hours of settlement, after the seller has vacated the property. Here is a quick list of what you should look for when you are conducting your final walkthrough:

- Start on the top floor and work your way down through the house, then go outside.
- Make sure the appliances work as they should (start the dishwasher as soon as you arrive to give it time to cycle.)
- Turn on every faucet and every light to make sure they are in working order.
- Turn on the heating and AC units. (If it is below 65° outside when you are settling, get an AC addendum to extend the final AC check until a warmer day.)
- Review your home inspection items to make sure they have been remedied.

If any repairs weren't completed or if there was damage done by the movers, your Realtor® will step in and make sure that a financial arrangement is worked out with the seller to ensure funds are available to make the necessary repairs. You need to be satisfied with the property prior to going to the settlement table.

?

If a seller is unable to correct any issues before settlement, they may opt to put funds in escrow to pay for repairs after settlement. Always set a date by which time the issues must be remedied. Any problems need to be fixed or you get the escrow funds to handle the issues yourself.

Preparing for Settlement

There are still some things that have to be attended to prior to completing the transaction at the settlement table. If you deal with these items early, you can avoid many last-minute headaches.

- **Contact a move**r: This seems like a no-brainer, but many people wait until late in the process and find that they cannot move on the date they want because the movers are usually booked months in advance. Call your mover as soon as you are firm on a settlement date.
- **Contact the appropriate utility companies**: Avoid eating your first meal in your new home by flashlight because you forgot to transfer the electricity.
- **Obtain the check for settlement**: Get the amount from the settlement company or attorney and arrange for a certified check. If you are using funds from the sale of another property, make sure your Realtor® has coordinated this with the settlement company.
- **Make sure you know exactly where the settlement office is**: Just in case!

At the Settlement Table

Inevitably, people are nervous when they sit down at the settlement table with their agent and the sellers and the lawyer. Understanding the settlement process will help you proceed to the settlement table without stress. Here is a typical agenda for a settlement:

- Resolve any remaining walkthrough issues—these have to be worked out before moving on to anything else.
- Review and approve the HUD 1 statement—the HUD 1 statement lists all of the numbers that make up the closing costs. Please see the sample HUD 1 on the next page.
- Seller signs the deed.
- You sign the loan documents:
  - Loan application
  - Truth in Lending Statement
  - Note
  - Deed of Trust
- Seller provides the keys.
- You give the check to the sellers.
- Everyone shakes hands and goes on their way!

HUD 1 Document Example

OMB NO. 2502-0265

A.
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT
SETTLEMENT STATEMENT

B. TYPE OF LOAN:
1. ☐ FHA 2. ☐ FmHA 3. ☒ CONV. UNINS. 4. ☐ VA 5. ☐ CONV. INS.
6. FILE NUMBER: 2007-4353
7. LOAN NUMBER: 8895412
8. MORTGAGE INS CASE NUMBER:

C. NOTE: *This form is furnished to give you a statement of actual settlement costs. Amounts paid to and by the settlement agent are shown. Items marked "[POC]" were paid outside the closing; they are shown here for informational purposes and are not included in the totals.*

D. NAME AND ADDRESS OF BORROWER:	E. NAME AND ADDRESS OF SELLER:	F. NAME AND ADDRESS OF LENDER:
Happy NewHomeOwner 123 Apartment Row Wilmington, DE 19808	Happy HomeSeller 123 SoldMyHome Ct Wilmington, DE 19808	Successfull Mortgage Co 123 Currency Blvd Wilmington, DE

G. PROPERTY LOCATION:	H. SETTLEMENT AGENT: 38-3711878	I. SETTLEMENT DATE:
123 SoldMyHome Ct Newark, DE 19711 New Castle County, Delaware	Trusted Attorney in Delaware PLACE OF SETTLEMENT Trusted Attorneys 123 Legal Proceeding Way Wilmington, DE 19808	December 28, 2007

J. SUMMARY OF BORROWER'S TRANSACTION	
100. GROSS AMOUNT DUE FROM BORROWER:	
101. Contract Sales Price	115,800.00
102. Personal Property	
103. Settlement Charges to Borrower (Line 1400)	3,395.78
104.	
105.	
Adjustments For Items Paid By Seller in advance	
106. City/Town Taxes to	
107. County Taxes 12/28/07 to 07/01/08	611.90
108. Assessments to	
109. Sewer 12/28/07 to 01/01/08	1.19
110. December Condo Fee 12/28/07 to 01/01/08	32.26
111.	
112.	
120. GROSS AMOUNT DUE FROM BORROWER	119,841.13
200. AMOUNTS PAID BY OR IN BEHALF OF BORROWER:	
201. Deposit or earnest money	500.00
202. Principal Amount of New Loan(s)	65,000.00
203. Existing loan(s) taken subject to	
204.	
205.	
206.	
207.	
208.	
209.	
Adjustments For Items Unpaid By Seller	
210. City/Town Taxes to	
211. County Taxes to	
212. Assessments to	
213.	
214.	
215.	
216.	
217.	
218.	
219.	
220. TOTAL PAID BY/FOR BORROWER	65,500.00
300. CASH AT SETTLEMENT FROM/TO BORROWER:	
301. Gross Amount Due From Borrower (Line 120)	119,841.13
302. Less Amount Paid By/For Borrower (Line 220)	(65,500.00)
303. CASH (X FROM) (TO) BORROWER	54,341.13

K. SUMMARY OF SELLER'S TRANSACTION	
400. GROSS AMOUNT DUE TO SELLER:	
401. Contract Sales Price	115,800.00
402. Personal Property	
403.	
404.	
405.	
Adjustments For Items Paid By Seller in advance	
406. City/Town Taxes to	
407. County Taxes 12/28/07 to 07/01/08	611.90
408. Assessments to	
409. Sewer 12/28/07 to 01/01/08	1.19
410. December Condo Fee 12/28/07 to 01/01/08	32.26
411.	
412.	
420. GROSS AMOUNT DUE TO SELLER	116,445.35
500. REDUCTIONS IN AMOUNT DUE TO SELLER:	
501. Excess Deposit (See Instructions)	
502. Settlement Charges to Seller (Line 1400)	13,080.00
503. Existing loan(s) taken subject to	
504. Payoff First Mortgage to Wilmington Trust Company/	31,200.93
505. Payoff Second Mortgage	
506.	
507. (Deposit disb. as proceeds)	
508.	
509.	
Adjustments For Items Unpaid By Seller	
510. City/Town Taxes to	
511. County Taxes to	
512. Assessments to	
513.	
514.	
515.	
516.	
517.	
518.	
519.	
520. TOTAL REDUCTION AMOUNT DUE SELLER	44,280.93
600. CASH AT SETTLEMENT TO/FROM SELLER:	
601. Gross Amount Due To Seller (Line 420)	116,445.35
602. Less Reductions Due Seller (Line 520)	(44,280.93)
603. CASH (X TO) (FROM) SELLER	72,164.42

The undersigned hereby acknowledge receipt of a completed copy of pages 1&2 of this statement & any attachments referred to herein.
I HAVE CAREFULLY REVIEWED THE HUD-1 SETTLEMENT STATEMENT AND TO THE BEST OF MY KNOWLEDGE AND BELIEF, IT IS A TRUE AND ACCURATE STATEMENT OF ALL RECEIPTS AND DISBURSEMENTS MADE ON MY ACCOUNT OR BY ME IN THIS TRANSACTION. I FURTHER CERTIFY THAT I HAVE RECEIVED A COPY OF THE HUD-1 SETTLEMENT STATEMENT.

Borrower ______________________ Seller ______________________

TO THE BEST OF MY KNOWLEDGE, THE HUD-1 SETTLEMENT STATEMENT WHICH I HAVE PREPARED IS A TRUE AND ACCURATE ACCOUNT OF THE FUNDS WHICH WERE RECEIVED AND HAVE BEEN OR WILL BE DISBURSED BY THE UNDERSIGNED AS PART OF THE SETTLEMENT OF THIS TRANSACTION. ______________________

WARNING: IT IS A CRIME TO KNOWINGLY MAKE FALSE STATEMENTS TO THE UNITED STATES ON THIS OR ANY SIMILAR FORM. PENALTIES UPON CONVICTION CAN INCLUDE A FINE AND IMPRISONMENT. FOR DETAILS SEE: TITLE 18 U.S. CODE SECTION 1001 & SECTION 1010.

APPENDIX

7 Considerations for Mortgages

Before you commit your hard earned dollars to monthly mortgage payments, consider these seven issues.

1. You should be pre-approved for a mortgage before starting your home search.

Your lender can provide you with a pre-approval letter quite easily, at no cost and no obligation. It entails a completed credit application, and a certificate which guarantees you a mortgage when you find the home you're looking for in your approval range.

2. Know what you are comfortable paying each month.

Prior to talking to a lender, give thought to what a comfortable monthly payment would be. You don't want to find yourself pre-approved for an amount that is higher (or lower) than the amount of money you would want to pay out each month. By knowing your maximum monthly payment, you won't waste time looking at homes that are not in your price range.

3. You should consider your long term and short term goals to help determine the type of mortgage that will best suit your needs.

When working through the process of obtaining a mortgage, you should consider the following: How long do you think you will own this home? Do you expect your income to change in the near future? The answers to these and other questions will help you determine the mortgage you should be seeking. Your lender will work with you to determine what questions need to be addressed prior to obtaining a mortgage.

4. Evaluate alternative options, such as "interest only" loans.

If you are a disciplined saver, alternative loan products will allow you to afford more by keeping your payments lower than normal. An "interest only" loan option will allow you to pay your mortgage more rapidly. Discuss alternative loan products with your lender.

5. Make sure you understand what prepayment privileges and payment frequency options are available to you.

If an alternative loan is not for you, make sure you understand what payment options are available. If you structure your payments so that they are more frequent, you will significantly reduce the amount of interest that you will be charged over the term. In the same way, prepayment of a certain percentage of your mortgage, or increasing the amount you pay monthly, will reduce the number of years you will pay on the mortgage. Not every mortgage has these prepayment privileges built in, so make sure you ask your lender.

6. Find out if your mortgage is portable and/or assumable.

A portable mortgage is one that you can carry over with you when you buy your next home, thus avoiding paying any penalties. This means that you won't have to go through the entire mortgage process again (unless your second house is more expensive).

An assumable mortgage allows your home's buyer to take over payments when you sign the house over to them. This can be a powerful tool, making your home much more desirable to buyers.

7. Work with a mortgage expert.

Make sure you are only dealing with a professional who specializes in mortgages. Like working with a professional Realtor®, working with a professional lender can make a significant difference in the cost and effectiveness of the mortgage you acquire.

8 Common Buyers' Mistakes

Let's face it: Buying a home is a major investment. However, for many people it can end up being more expensive than it needs to be due to some costly mistakes. They find themselves paying too much for the home they want, losing their dream home to another buyer, or (worse) buying the wrong home for their needs. Working with a professional Realtor® throughout the home buying process can help you steer clear of these common traps:

1. Not Understanding the Market

What price should you offer? Does the seller's asking price represent an accurate value or is it too high? If you don't have a firm understanding of what comparable homes in the area are selling for, you are bidding blind.

2. Buying the Wrong Home

What are you looking for in a home? It's a simple enough question, but the answer can be quite complex. Plenty of buyers have been swept up in the emotion and excitement of the buying process, only to find themselves owners of homes that are either too big or too small. Maybe they're stuck with a long commute to work, or a dozen extra repairs to make. Take the time upfront to clearly define your wants and needs. Put them in writing and use them as a standard to evaluate every home you visit.

3. Inaccurate Survey

When you make an offer to purchase, make sure you ask for an updated survey of the property that clearly marks its boundaries. A current survey will show any changes that have been made to the property.

4. Undisclosed Fix-Ups

Don't expect every seller to tell you about issues that will need attention. Make sure that you have a thorough inspection within a week of ratification. A good inspector will give you a report of any items that need to be fixed with approximate costs.

5. Unexpected Closing Costs

Make sure you uncover all costs, large and small, that are associated with the purchase of your home. Ask for all fees to be disclosed to you during each step of the home buying process, including the unexpected costs you'll find on the next page.

6. Rushing the Closing

Take your time during this part of the process, and ask to see all paperwork the day before you sign. Make sure you understand the documentation you are signing and that there are not costs or information that is unclear. If you try to rush through this process on the day of settlement, you may run into last minute issues that you can't fix without altering the terms of the deal.

7. Buying a Home Through the Listing Agent

The listing agent represents the seller's best interest, not yours as the buyer. Work with a buyer's agent to get representation that will benefit you.

8. Clue Report

Before you purchase a home, have your insurance agent perform a "Clue Report" (Comprehensive Loss Underwriting Exchange) on the property you are buying, to determine if the sellers made any claims on the subject property. This is important, because it may cost you more to get insurance if they have made previous claims.

10 Unexpected Costs

There are some costs—on top of the purchase price—that you should make sure you understand prior to settlement. These extra fees, such as taxes, could surprise you on closing day if you are not informed. Not all of these costs will apply in every situation, but it is better to know about them ahead of time. Read through the following checklist to be sure you are budgeting properly for your next move.

1. Appraisal Fee

Your lender may request an appraisal of the property, which you are responsible to pay for. Appraisals can vary in price from approximately $175 to $500.

2. Survey Fee

When the home you purchase is a resale (versus a new home), your lending institution may ask for an updated property survey. The cost for this survey can vary between $200 and $1000.

3. Property Insurance

Home owners insurance covers the replacement value of your home (structure and contents). Your lending institution will request proof that you are insured to protect their investment on the loan.

4. Service Charges

Any new utility services, such as telephone or cable, may require an installation.

5. Legal Fees

Even the simplest of home purchases should involve a lawyer to review all paperwork at closing. Shop around, as rates vary greatly depending on the complexity of the issues and the experience of the lawyer.

6. Mortgage Loan Insurance Fee

Depending on the equity in your home, some mortgages require mortgage loan insurance. This type of insurance will cost you between 0.5% and 3.5% of the total amount of the mortgage. Usually, payments are made monthly in addition to your mortgage and tax payment. These payments are not tax deductible.

7. Moving Costs

A professional mover can cost you in the range of $30 to $100 per hour for a van and three movers, and could be 10% to 20% higher during peak demand seasons. Some movers even charge you an additional fee for each box, blanket, and roll of tape used during the move.

8. Mortgage Broker Fee

A mortgage broker is entitled to charge you a fee in order to source a lender and organize financing. However, it pays to look at your options, because many mortgage brokers will provide their services for free by having the lending institution absorb the cost.

9. Land Transfer Tax

This tax is applied whenever property changes hands.

10. Local Improvements

If the town you live in has made local improvements (such as the addition of sewers or sidewalks), this could impact a property's taxes by thousands of dollars.

Top 10 Home Inspection Problems

Below are some of the more common problems found in a typical home inspection. While most of these problems are obvious and have already been reflected in the purchase price, a home inspection lets you know if the property is in as good a shape as you think it is.

1. Minor maintenance problems: Poor overall maintenance usually leads to a large range of problems that will require the new homeowner's attention. These can include everything from peeling paint to rotting decks.

2. Minor structural problems: These problems are typical in older homes, and they range from cracked plaster to small movements in the foundation. While they are not likely to cause the house to fall down, they should be corrected before they become more serious.

3. Grading/drainage problems: Improper grading and drainage can often lead to damp or wet footings/basements. Correction can range from installing new gutters and downspouts to installing French drains. It should be noted that simply re-grading the surrounding lawn to channel surface water away from the house is sometimes sufficient.

4. Older/insufficient electrical system: It is common to find older homes with undersized services, aluminum wiring, double tapped circuit breakers, and ungrounded outlets.

5. Older/poorly installed plumbing: It is also common to find plumbing problems in older homes. You may be surprised about faucet leaks, a toilet flush issue or pinhole leaks in copper pipes.

6. Older/leaking roof: On average, an asphalt roof lasts 20 to 30 years. If your roof is failing, you need to know how many layers there are in order to determine if the roof needs to be completely stripped before installing the new shingles.

7. Older heating/cooling system: Older and poorly maintained heating/cooling systems are inefficient and could pose a serious safety and health risk. While replacement may seem expensive, the newer, more efficient systems reduce heating/cooling costs substantially, thus helping to recoup your investment.

8. Poor ventilation: Excessive moisture from un-vented bathrooms and cooking areas can damage plaster, promote the growth of mold and fungus, deteriorate windows, and cause allergic reactions.

9. Excessive air leakage: Poor weather stripping, badly fitted doors, deteriorated caulking, and poor attic seals all contribute to a cold and drafty home.

10. Environmental problems: These can include asbestos, formaldehyde, leaking underground oil tanks, nearby gas stations, contaminated drinking water, lead-based paint, and radon gas. It is important to discuss these potential hazards with a professional and arrange for a specialized inspection if necessary.

Building a Home

If you know what you want and are prepared to finance it, building your own home is an option. Consulting a Realtor® is just as vital to the process of building as it is to the process of buying. Here are some things to be on the lookout for as you consider constructing home.

1. Lot, Front, and Elevation

First, you'll need to find a lot you can build on. Make sure it has enough space for the size home you want. Don't forget to account for the yard! Then, you can look at model homes and determine what front and structure you want. Make sure you talk to a builder when you decide how you want to position the house on the property, taking into account light, elevation, and the view.

2. Contract Negotiation

Your Realtor® will help you talk to the builder, as you decide on the cost of the job and the length of time it will take to complete it.

3. Settlement Statement

Be sure to review and understand the settlement statement with the help of your Realtor®. This is a one-page document that lists all the expenses of building and how the involved parties will pay for them. Think of it as a glorified invoice.

4. Amenities and Resale Value

Be sure to know what features you want in your new home. Perhaps a fireplace is a necessity for you. Maybe you're ready to put in the backyard pool you've always wanted. Will the basement accommodate a dry or wet bar? Although added amenities will raise the price of building, they increase the resale value of the home. Talk to your Realtor® to determine a good pricing balance.

5. Pre-Drywall / Post-Drywall Inspection

You'll want to have an inspector go through your house before and after the walls go up, to make sure there are no major structural issues. The inspector will mark any problems with blue tape, and the builder will correct them at no additional cost. This is the equivalent of a final walk-through, so make sure you get a full report from the inspector.

About Eric Stewart

Eric Stewart started his real estate career in 1987, and each year sells over a hundred homes in MD, VA, and DC. He has completed more than 2,300 real estate transactions, which has placed him in the top 1% of Realtors® in the nation (the top 200 out of more than 1,000,000 Realtors®).

Eric is from a family of doctors, which means he thinks like one. His greatest interest is centered on his clients, listening and prescribing a plan of action for each one.

As a native to the suburbs of Washington, DC, Eric has lived and worked in the DC metro area for over 45 years. He graduated from the University of Maryland, and now lives with his family in Potomac.

Eric wakes up on Sunday mornings with his metropolitan listening audience who turn in to his weekly radio show on WMAL AM 630/105.9 FM. With his personal candor, Eric dispenses timely information on the local real estate market and provides coaching on how to "rightsize" your life.

Many years in real estate have taught Eric that by utilizing a group approach, he can most effectively serve his clients. Realtors® are required to juggle over 119 tasks in order to sell a single home. Independent agents will eventually encounter the limits of time, energy, and money, restricting their ability to sell homes. But with the Eric Stewart Group, you get a whole team of real estate professionals working for you.

Each member is separately responsible for specific functions in the buying and selling processes. Together, the combined efforts of the Group add up to superior marketing and customer service, resulting in properties sold fast and for top dollar.

With his commitment to community development and social good, Eric is also the founder of Widow Care, a new Maryland based nonprofit designed to provide support and volunteer services to widows and widowers in distress.

Eric Stewart's Other Smart Guides

To request additional copies of any of Eric's Smart Guides or to see the complete lineup of available guides visit

www.EricStewartGroup.com

or call 800-900-9104.

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