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## 10 STEPS TO HOME OWNERSHIP

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### Step 1: Are You Ready?



One of the keys to making the home-buying process easier and more understandable is **planning**. In doing so, you'll be able to anticipate requests from lenders, lawyers and a host of other professionals.

Whether you are a first-time home buyer or entering the marketplace as a repeat buyer, you need to ask **why you want to buy**. Are you planning to move to a new community due to a lifestyle change or is buying an option and not a requirement? What would you like in terms of real estate that you do not now have? Do you have a purchasing timeframe?

#### Do You Have The Money?

Homes and financing are closely intertwined. (*Financing is the difference between the purchase price and the down payment, commonly referred to as debt or the mortgage.*) In addition to a **down payment**, purchasers also need cash for **closing costs** (the final costs associated with closing the loan).

Less money down means higher monthly mortgage payments, so most home buyers choose to buy with some cash up front. As to closing costs, in markets where buyers have leverage, it may be possible to negotiate an offer for a home that requires the owner to pay some or all of your settlement expenses.

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### Step 2: Get a Realtor



Buying and selling real estate is a complex matter. At first it might seem that by checking local picture books or online sites you could quickly find the right home at the right price and proceed with the transaction on your own. [Visit the document center on my website and view the benefits of buyer representation.](#)

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### Step 3: Get Loan Pre approval



Few people can buy a home for cash. The real issue with real estate financing is not getting a loan (virtually anyone willing to pay lofty interest rates can find a mortgage). Instead, the idea is to get the loan that's right for you -- the mortgage with the lowest cost and best terms.

Buyers should start the mortgage pre-approval process well before bidding on a home (*preferably before you start looking at homes*). Pre-approval means *you have met with a loan officer, your credit files have been reviewed and the loan officer believes you can readily qualify for a given loan amount with one or more specific mortgage programs*. Based on this information, the lender will provide a pre-approval letter, which shows your **borrowing power**. Although not a final loan commitment, the pre-approval letter can be shown to listing brokers when bidding on a home. *It demonstrates your financial strength and shows that you have the ability to go through with a purchase*. This information is important to owners since they do not want to accept an offer that is likely to fail because financing cannot be obtained.

*Getting pre-approved means you have a very good idea of how much you can borrow, what loan programs will most likely work best in your situation and **how much home you can afford**.*

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### Step 4: Look at Homes



Millions of new and existing homes are sold each year. There's no shortage of housing options, but with so many choices the challenge becomes *finding the property which best meets your needs*.

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Every buyer is different and so it's important to list the features and benefits **you** want in a home. Consider such things as pricing, location, size, amenities (extras such as a pool or extra-large kitchen) and design (one floor or two, colonial or modern, etc.). [Visit the document center on my website and download "my wish list" to assist in narrowing down what you want in a home.](#)

Next, it's important to consider your priorities. If you can't get a home at your price with all the features you want, then what features are most important? For instance, would you trade fewer bedrooms for a larger kitchen? A longer commute for a bigger lot and lower cost?

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### Step 5: Choose a Home



There's no doubt that choosing a home is a big decision and you want to do it right. As a buyer, here's what actually happens:

- A home has been placed on the market by a listing agent *working on behalf of the seller*. The seller has established an asking price as well as other terms. In effect, **this is an offer**.
- At this point, you have three choices:
  - *accept* the seller's offer and create a contract;
  - *reject* it and not make an offer;
  - or suggest different terms and make a *counter-offer*. *If you choose this last option, the seller may accept, reject or make a counter-offer.*

No aspect of the home buying process is more complex, personal or variable than bargaining between buyers and sellers. This is the point where the value of an experienced REALTOR® is clearly evident because he or she knows the community, has seen numerous homes for sale, knows local values and has spent years negotiating realty transactions.

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### Step 6: Get Funding



There are thousands of loans available out there from a variety of lenders, but in general, the mortgage you choose will likely be determined by at least several key factors:

#### How much down?

- Loans with **5 percent down or less** are available -- in fact, loans from major lenders with no money down have appeared in recent years.
- If you place **less than 20 percent down**, lenders will want the mortgage guaranteed by an outside third party such as:
  - the Veterans Administration (VA),
  - the Federal Housing Administration (FHA) or
  - a private mortgage insurer (PMI, or private mortgage insurance, is required by lender to protect against any mortgage defaults).
- Millions of VA, FHA and PMI loans are generated each year.

**How's your credit?** The best rates and terms are only available to those with solid credit. *Get your credit in order by paying credit cards, installment payments, rent and mortgage bills in full and on time.*

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### Step 7: Make an Offer



While much attention is spent on offering prices, a proposal to buy includes both the **price** and **terms**. In some cases, terms can represent thousands of dollars in additional value for buyers -- or additional costs. Terms are extremely important and should be carefully reviewed.

You sometimes hear that the amount of your offer should be x percent below the seller's asking price or y percent less than you're really willing to pay. In practice, **the offer depends on the basic laws of supply and demand**: *if many buyers are competing for homes, then sellers will likely get full-price offers and sometimes even more.* If demand is weak, then offers below the asking price may be in order.

A number of inspections are common in residential realty transactions as part of the offer process. They include:

- checks for termites
- surveys to determine boundaries
- appraisals to determine value for lenders
- title reviews
- structural (home) inspections

Structural (home) inspections are particularly important. During these examinations, an inspector comes to the property to determine if there are material physical defects and whether expensive repairs and replacements are likely to be required in the next few years. Such inspections for a single-family home often require two or three hours, and **buyers should attend**. This is an opportunity to examine the property's mechanics and structure, ask questions and learn far more about the property than is possible with an informal walk-through. A buyer should have a home inspection completed on existing construction as well as a newly constructed home.

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## Step 8: Get Insurance



No one would drive a car without insurance, so it figures that no homeowner should be without insurance. The essential idea behind various forms of real estate insurance is *to protect owners in the event of catastrophe*. If something goes wrong, insurance can be the bargain of a lifetime.

There are various forms of insurance associated with home ownership, including these major types:

**Title insurance:** Purchased with a one-time fee at closing and can be negotiated as to who pays. Title insurance protects owners in the event that *title to the property is found to be invalid*. Coverage includes "lenders" policies, which protect buyers up to the mortgage value of the property, and "owners" coverage, which protects owners up to the purchase price. In other words, "owners" coverage protects both the mortgage amount and the value of the down payment. For example, while the history of property ownership has been checked, it's possible that the records contain errors, unrecorded claims or flaws in the review itself, thus title insurance is necessary

**Homeowners' insurance:** Homeowner's insurance provides fire, theft and liability coverage. Homeowners' policies are required by lenders and often cover a surprising number of items, including in some cases such property as wedding rings, furniture and home office equipment.

**Flood insurance:** Generally required in high-risk flood-prone areas, this insurance is issued by the federal government and provides as much as \$250,000 in coverage for a single-family home plus \$100,000 for contents.

**Home warranties:** With new homes, buyers want assurance that if something goes wrong after completion the builder will be there to make repairs. But what if the builder refuses to do the work or goes out of business?

Home warranties bought from third parties by home builders are generally designed to provide several forms of protection:

- workmanship for the first year
- mechanical problems such as plumbing and wiring for the first two years
- and structural defects for up to 10 years

Home warranties for existing homes are typically one-year service agreements purchased by sellers. In the event of a covered defect or breakdown, the warranty firm will step in and make the repair or cover its cost.

Insurance policies and warranties have limitations and individual programs have different levels of coverage, deductibles and costs. For details, speak with REALTORS®, insurance brokers and home builders.

## Step 9: Closing



The closing process, brings together a variety of parties who are part of the "transaction" process. This is when all of the necessary paperwork needed to complete the transaction is signed. Closing is typically held in an office setting, sometimes with both buyer and seller at the same table, sometimes with each party completing their papers separately.

A closing agent handles the closing and completes the paperwork needed to record the loan. The result is that **title to the property is transferred from seller to buyer**. **The buyer receives the keys** and **the seller receives payment for the home**. Deeds, loan papers, and other documents are prepared, signed and filed with local property record offices.

Before closing, buyers typically have a final opportunity to walk through the property to assure that its condition has not materially changed since the sale agreement was signed.

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## Step 10: What's Next?



You've done it. You've looked at properties, made an offer, obtained financing and gone to closing. The home is yours. Is there any more to the home buying process?

Whether you're a first-time buyer or a repeat buyer, there are several more steps you'll want to take.

- Those papers you received at settlement are extremely valuable, so hold on to them! In the short-term they can help establish tax deductions for the year in which the property was purchased. In the future, such papers will be important for tax purposes when the property is sold, and in some cases, for calculating estate taxes.
- Also at closing, determine the status of the utilities required by the home, items such as water, sewage, gas, electric and oil service. You want utility bills to be paid in full by owners as of closing and you also want services transferred to your name for billing.
- About two weeks after closing, contact your local property records office and confirm that your deed has been officially recorded. Such records are public notices that show your interest in the property.
- Many owners make a photo or video record of the home and their possessions for insurance purposes and then keep the records in a safety deposit box. Your insurance provider can recommend what to photograph and how to secure it.
- You want to maintain fire, theft and liability insurance. As the value of your property increases such coverage should also rise. Again, speak with your insurance professional for details.
- Lastly, enjoy your home. Owning real estate involves contracts, loans, and taxes, but ultimately what's most important is that home ownership should be a wonderful experience. Enjoy!