homebuying guide

what to expect when purchasing your home

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content

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part one—

is buying a home the right option for me?

It's something that almost everyone will do at some point in their lives, but beginning the process of buying your first home can be a daunting task. If possible, going to your parents or a mentor for advice is a great first step. The problem is that odds are, even if it were only a few years ago since they last bought a home, the process has changed an incredible amount. That's right, the process of buying a property is more convoluted than ever before. Because of the many unknowns associated with every transaction, having a REALTOR on your side to act as your guide and advocate will make the process much more bearable.

When starting this process, the first question to answer is: is buying the right option for me?

Focusing solely on Denver, buying is most definitely a better decision than renting if you can afford it. Rental rates have increased 12% across all of Denver in the last year. Limited supply of rental properties coupled with everyones fear of purchasing after watching value disappear in the past, has been driving rental rates up for years. We have seen the pent up demand become somewhat satisfied over the last year with large multi-family projects popping up all over town, but the demand is still outweighing the supply as Denver's economy as a whole continues to strengthen. To put things in better perspective, here's an example: A 650 square foot apartment at the Highland Park Apartments on 30th and Zuni will run you almost $1,600/month. If you were to purchase a home using FHA financing and wanted to keep monthly payments at $1,600/month, you could consider a home around the $250k price point.

> The fact that rents keep rising is a major consideration, but also take into account that renting isn't an investment.

When you rent, you are paying someone elses mortgage. With that, you're occupying the property and paying down the outstanding balance on their loan while it is appreciating for the owner. Owning a property means you are doing all of this for your own benefit. Owning a property is also a good hedge against inflation. If inflation is on the up, the costs of all goods are too, housing included.

There are cases though where buying is NOT the right option. A low credit score (even though some loans may allow you to qualify with lower credit scores) will negatively impact your monthly payment. It might be worth taking six months to a year to repair your credit in order to get a better interest rate. Before purchasing a property, make sure the decision won't make you "house poor". What good is having a great place if you are trapped in it? Though lenders may approve you for higher, it is a good idea to plan on spending only 1/3 of your monthly income on housing. Having substantial savings is also important, not only for the down payment, but also for any renovations or repairs you may have to make upon closing on the property. With homeownership comes unknowns: it is important to be financially prepared for the unexpected.

part two—

securing financing

Unless you are privileged enough to be in a position to make an all cash purchase, the first and most important step in the home buying process is to secure financing. Even though it's tempting to start looking for properties, or even casually browse online right away, try to refrain until after you know what amount you're approved for. By doing so, you won't get your hopes up for a property that may be out of your price range, or a property that that doesn't accept the type of financing you are going to be using.

selecting a lender

The first step in securing financing is selecting a lender. Frequently, buyers choose to visit where they bank and apply for a mortgage. Although working with your bank is an option, large institutional banks are notorious for killing deals because of stricter guidelines, inability to accommodate changes and slower response times throughout the entire process of originating the loan.

the rule of three: shop around

We suggest that my clients speak with three lenders. Each lender will be able to offer you comparable rates since interest rates are determined by macro factors. Base your decision on fees, monthly payment and the relationships and reviews of that lender's past clients. Your credit score will drop upon having it pulled by a lender, but there is a 45 day grace-period that you are entitled to when shopping for mortgages.

mortgage brokers vs. loan officers

Mortgage brokers will be offering you products that their pool of investors offers them. Mortgage brokers normally have more options than an institution can provide. Loan officers work for institutions (ex. Wells Fargo, 1st Bank, Key) and can only offer products that their parent company offers. Sometimes an institutional lender will have the product you need, but it is important to explore your options.

your loan options

What are your options when it comes to financing? Many people think that they need to have at least 20% of the purchase price saved up for the down payment. This is actually not true. There are quite a few options available to best fulfill your financial needs.

conventional loan with 20% down

The main reason you would want to put (at least) 20% down is to avoid having to pay private mortgage insurance (PMI). We'll get to what PMI is in a second. Putting more down will also lead to a lower interest rate from the lender, saving you tens of thousands over the life of the loan.

conventional loan with less than 20% down

There are so many lenders out there (private money lenders, big institutions, mortgage brokers, portfolio lenders, etc.) that you can get almost any combination of amount down and amount financed that you want. For a conventional loan, the lowest amount down that I have personally seen is 5%. Putting less down comes at a price though, and that price is private mortgage insurance and a higher interest rate. With how low interest rates are right now, this is almost a moot point. The PMI however, is not. Conventional loans, base your PMI off of your credit score, loan amount, loan term, the loan-to-value (LTV) of the property, your personal debt-to-income (DTI) ratio and other factors. There are options as to how the PMI gets paid: a single upfront premium, financing it into your loan, getting your lender to pay it, paying it monthly, etc. The good news? Once you get your LTV to 78%, the PMI goes away. This can be accelerated by a hot market and appreciation. If your neighborhood has seen huge rises recently and you feel the outstanding balance of the loan is now only 78%, pay for an appraisal to be done and provide the results to your lender (make sure to discuss with them if there are any penalties to paying early or guidelines they require you to follow with the appraisal).

fha loan with 3.5% down

Until the housing market crashed in 2008, FHA loans were almost unheard of. They have existed for a long time, but no one used them. Upon real estate losing 40% of it's value and buyers being cash poor, FHA loans' popularity exploded. FHA loans have a lower interest rate than a conventional loan because they are backed by the government (the Federal Housing Administration). Regardless of who issues your loan or who buys it on the secondary market, if you default on your end, they are protected, so there is almost no risk involved from the lender's perspective. But the FHA has to pay for these loans that go bad, and they do so through private mortgage insurance. Guidelines for FHA loans change annually, and as of 2013, they require 1.35% of the purchase price be paid annually in PMI and that the PMI is in place for the life of the loan. Whereas FHA loans used to have the PMI fall off upon reaching the 78% LTV mark (up until 2012 when they switched to keep PMI for 5 full years regardless of LTV), buyers using FHA financing going forward will be stuck with the hated PMI.

pmi explained

So why do lenders require PMI anyway? The thinking is fairly straightforward: if the market dips and the owner loses the equity they had in the home because they can no longer sell if for more than the outstanding balance of the loan, what incentive is there for them to continue making mortgage payments on the property? When the housing market crashed, droves of owners walked away from properties because they had no equity in them (surprising how this can happen when lenders shell out 105% LTV). If these loans didn't have PMI associated with them the lenders lost, and lost big. Just remember that if you put less down at the time of purchase, there is a tradeoff, and that tradeoff fluctuates based on a variety of factors.

chfa loan

In Colorado there is a down payment assistance program called CHFA. CHFA allows qualifying buyers to purchase a property with 0% down (there are still closing costs associated with the deal, but the amount normally comes out to be less than the required 3.5% down by FHA). At closing, the FHA loan will fund the first 96.5% of the purchase price and the CHFA loan will fund the remaining 3.5%.

203k loan

FHA has a great program for soon-to-be homeowners that want to make some renovations to a property that they are buying. Since most buyers choosing to go with FHA financing don't have the cash on hand to make the renovations after closing, the 203k program allows you to finance renovations into your mortgage. The process is more simple than it may sound. You need to be connected with a contractor that is familiar with 203k loans (they are not required to be licensed, so it is important to get a good referral). You will go through the property with your contractor and get bids for the repairs and renovations you would like made to the property (there are certain items that are not allowed to be included, such as hot tubs, spas, etc.). The FHA appraiser will then appraise the property assuming the work has been done, so the amount financed is based on the "after repair value" of the property. FHA 203k closings typically take longer than traditional deals (around 45 days to close) and renovations must be done within the first six months after closing.

va

In the case that you have served, take advantage of the VA loan program. The max purchase price that you will be eligible for will vary, but VA loans allow you purchase with 0% down and no PMI. The purchase price is going to be dependent on your credit score, current income and entitlement among other factors.

part three—

choosing a neighborhood

For a lot of people, deciding on a neighborhood to live and purchase a home in is a given. They are already in love with an area or they are already residents in an area and are now ready to take the plunge into home ownership. But it's not that simple for everyone. What if you're moving to Denver from out-of-state? What if you just can't narrow it down? What attracts one person to an area might turn off the next person. Doing your research prior to choosing a neighborhood to purchase a home in is so important. The following are all aspects that we encourage clients to consider when deciding which neighborhoods they want to search in.

lifestyle

Do you love going to concerts? Need to be close to your studio? Maybe you have to be in a location that allows you to bike to your office. Your lifestyle might make finding the perfect match easier than you think. Only you can determine what is important to you, but if you are open with your agent about what the most important aspects of your life are, they will have several suggestions for you to explore.

future appreciation

We like to set up all of our clients for a win in the long term, but maybe you are looking for a fixer-upper in a (soon-to-be) sought after neighborhood. If creating sweat equity is your goal, certain neighborhoods will not be the best fit either because they have already been picked clean or because the indicators don't suggest it will be a solid investment. On the other hand, your timing might be perfect (as has been the case for lots of buyers over the last year and a half in Denver) and you can ride a wave of appreciation in the neighborhood while also improving upon the property.

budget

You can almost always find a property that falls into your budget in your desired neighborhood if you are willing to compromise. Don't get scared away from a neighborhood because you see a million dollar listing on the market. Until you have exhausted all options searching for a place that you can afford, there is no need to write off any one part of town. If a certain amount of space is required however, plan on needing to be flexible with location.

proximity

If great nightlife is important to you, perhaps living on a farm isn't the best option. What if you have season tickets to the Rockies and no car? You'll probably want to consider living closer to the baseball field. Choosing a neighborhood based on proximity to important locations is often a great way to start narrowing down neighborhoods.

schools

Due to certain restrictions on enrollment, the neighborhoods you look in may be dictated by where you want to send your children to school. Even if you don't have kids now, choosing a neighborhood based off of schools could be helpful if you're planning on children in the near future or attracting buyers when you are ready to sell.

shopping and dining

If shopping at a Whole Foods, for example, is important to you, you may not want to live too far away from one. Take the same considerations regarding dining, or, this may not be an important issue in your eyes. Remember, it's all about personal preference and how much you're willing to travel to get to the destinations you love.

outdoor space, parks and bike paths

Luckily, Denver and the suburbs of Denver are littered with a plethora of green space. If getting outside and having access to bike and pedestrian paths is super important to you, look for areas with great green space, or neighborhoods that are centered around a park (i.e City Park, Cheesman Park, Wash Park, Sloan's Lake etc.) Avid biker? Look for neighborhoods with great bike paths.

safety

It is so important that you feel safe in your home, and the feeling of "safety" varies from person to person. Do some research on crime rates in specific areas before you choose to buy a home there. Your real estate agent can help you get access to this material or you can call the local police station for a report.

commute

It may seem like a no-brainer, but if you hate sitting in traffic, why not choose a neighborhood close to your work? Perhaps a neighborhood close to your children's school? If you're not interested in living close to work but do want a less stressful commute, access to transit could help guide your decision. In addition to considering your commute, also note the parking availability in the neighborhood you're interested in.

transit access

Denver and metro Denver has Lightrail which provides comprehensive public transit throughout the front range. If you don't own a car, or don't wish to commute, choosing a neighborhood based on proximity to a light rail station or availability of bus routes will be helpful to you.

hoa

Are you adamantly opposed to an HOA or do you want to seek out a home located in one? Everyone has had different experiences with HOAs, so this might be a deal-breaker or maker. Some people like the governance an HOA can provide while others want the freedom to do whatever they want (within zoning restrictions) to their property.

zoning

Often overlooked by buyers is the zoning of the land on which the property sits on. It can be your best-friend or worst enemy if you're not aware of it. Just because the lot has a tiny one bedroom home on it now, doesn't necessarily make it a bad investment if it has zoning that allows for future expansion (ex. lot size and zoning could allow for the construction of four row houses in the future).

Seems like a lot to think about right?

Finding a neighborhood isn't as complicated as it sounds. Some of the best advice we give to our clients is to immerse yourself in the neighborhood before you choose to buy there. Visit the area at different times of day, eat at local restaurants, take your kids to the neighborhood park, talk to neighbors- all of these things will help you imagine living there and ultimately will help you decide if it's the right area for you.

part four—

making an offer

Is it starting to feel like there are more butterflies in your stomach than the Great Monarch Migration of 2005? If you are at this point in the home buying process, you are probably giddy with anticipation that you've finally found the property that you want to call your own. Before you call your parents to let them know that you've found "the one", there are about twenty hurdles to clear before it's yours. You have to register for the race before you can run it, and that is exactly what getting under contract is all about. So take a deep breath, this is normally the most stressful time for buyers. At this point in the process, there are likely hundreds of questions running through your head (Are we paying too much? Is this where we really want to live? How long will I have to save to do the renovations I want? etc.). If your agent has prepared you properly, you should already have the answers to all of these questions and will be ready to make an offer.

price

The first thing to discuss with your agent is price. Your broker should have a good idea of what the home is worth, and this number will be confirmed with a comparative market analysis (CMA) of the property, which will inform you exactly what the fair market value (FMV) is. Once your agent has determined the FMV, it's time to approach the listing agent (or seller directly if you are going to submit an offer on a For Sale By Owner (FSBO)) to understand exactly what the seller is looking for in terms of dates and deadlines as well as to see if there are other offers on the table. If there are multiple parties bidding, the FMV becomes less relevant as the multiple offers will most likely drive the price up over the seller's list price. If the property is fresh on the market you can also expect the seller to be reluctant to move down from their list price. If it's been sitting on the market for a while with no price reductions, it is more likely that a property will go for less than list.

Related to price is the type of seller you are going to be dealing with. It could be a bank-owned property (REO), a short sale, an estate sale, an equity sale (seller is not in a distressed situation) with the seller being an individual or corporation or new construction. If the owner built the property with their bare hands, you can expect them to be emotionally attached to the property and regard it as being worth more than it is. Buying from professional flippers? Excellent, because you might be able to get them off their price and they will be more open to inspection items you request to be remedied (we'll get to that). Just make sure they pulled permits for the work done that required permits, otherwise you'll be in for a world of hurt down the road.

earnest money

Earnest money can be viewed as a security deposit on the property. In most instances, it will be the seller's only recourse should you default on your side of the transaction. If you decide after getting under contract that you would like to terminate the deal, you have the right to do so and if you timely terminate, the earnest money will be returned to you. Should you see things through to closing, the earnest money will be applied to the amount that you are required to bring to the table to get the deal done.

contract

How you and your agent choose to write the rest of the contract is situational. In Colorado, buyers are so protected during the under contract process that they can terminate for any reason up until their last deadline (typically the Loan Objection Deadline). If you are in a competitive situation, you might want to consider waiving some of the contingencies built into the contract to make your offer more attractive to the seller. Whether or not you are waiving contingencies, we always encourage our buyers to write offers with the deadlines loaded at the front of the under contract period (regardless if we are shooting for a 30 or 45+ day close). This will signal to the seller that you are serious about getting your due diligence done up front, as well as save you time should you uncover something that you and the seller cannot work out.

For an offer to be successful, it must be a win-win for both sides. Should one side be taken advantage of at the onset of the process, odds are something will come up that needs mutual consent for resolution and the seller will be less willing to accommodate. Emotion can derail the process. Make sure you thoroughly discuss the pros and cons of your offer with you agent prior to submitting. While your agent will no doubt help you write the offer, it is ultimately you who is responsible for understanding everything and signing on the dotted line.

part five—

under contract

Woohoo! You and the seller came to terms on an offer… but, now what? The next two weeks are going to determine whether this is a good fit or not. During this time, expect to devote some of your energy to this part of the process. We often get asked what buyers can expect to pay outside of the down payment. It is normal to spend about 2-3% of the purchase price of the home depending on what your lender charges.

property disclosure

After getting your earnest money into the title company, you're going to receive the Seller's Property Disclosure. This will detail the condition of the property to the best of the seller's knowledge. You'll want to take this with a grain of salt though, because the seller is within their rights to answer "don't know" or "n/a" on everything. The only time this will ever hold any weight will be if the seller fraudulently misrepresents the property.

inspection

The next step, and one of the most crucial, is the inspection. You'll want to get this taken care of as soon as possible, to both show the seller that you are serious about the process and to know immediately if there are issues that the two of you won't be able to come to terms on. You can expect the general inspection to cost around $350, the sewer scope will be another $100 (if you are purchasing a condo a sewer scope is not needed) and you'll want to test for radon as well, which is another $150. While it might seem expensive in the short term, these tests and inspections are important and will help ensure that you're getting a quality product. Imagine if you didn't have these inspections done and tests performed? You could close on the property and end up having expensive issues on your first day as a home owner. If the results you receive from the inspection, sewer scope and radon test indicate that there are issues with the property, it's time to negotiate. Be prepared for your agent to go back and forth with the seller on the items you would like addressed. Be sure to check with your lender before signing the Inspection Resolution, because upon review, the underwriter could create new conditions that could derail you from getting funding.

title docs

Around the same time that you'll be taking care of inspection, the title docs will arrive. For those of you who don't know, title docs include the title commitment, HOA guidelines and bylaws and the party wall agreement if you are buying a unit in a multi-unit property without an HOA. The seller is required to furnish to you free, clear and insurable title. The title company that you and the seller have agreed to use to close the deal will send over a title commitment that will detail what needs to happen in order for them to issue a title insurance policy. If you are purchasing a property that is subject to an HOA, you'll get the guidelines and bylaws for the HOA to review to make sure you are onboard with them (good luck getting them changed should you find something you don't agree with). Near the time that the title documents arrive, you will also receive any permits you have requested. Permits are especially critical if you are purchasing a flipped, rehabbed property or if any major renovations have been done.

appraisal

Once you've cleared inspection, title and any other miscellaneous docs review, it's now time to give the lender (or yourself if you are paying cash) the green light to order the appraisal. If you were able to get any seller concessions as part of the original offer, you will be reimbursed for this cost at closing. Otherwise, the appraisal will cost around $450. If your broker did your homework upfront, and you didn't overbid on the property, you should be golden (you never know what appraiser you will be assigned and if that appraiser knows what they're doing). In the event that the appraisal comes back low, there are a few options for how to proceed: the deal can be terminated and earnest money returned, the seller can reduce the purchase price or you and/or the seller can bring the difference to closing.

walkthrough

It's almost closing time! The last hoop to jump through is the final walkthrough of the property. Although you aren't allowed to raise any new objections with the property, your agent will schedule the walkthrough to confirm that the property is in the condition that you and the seller have agreed to throughout the process. During the walk through you will ensure that repairs from inspection have been made, inclusions from the contract are on the property, etc. After that, you're almost in the clear. Once you have confirmation that the wire has arrived at the title company and your funds are ready to go, get ready to sign more documents than you thought possible.

part six—

closing and beyond

Once you've gotten to the this point, you're almost out of the woods. Most of what will come around closing and post-closing can be viewed as administrative items. As if the purchasing process wasn't tedious enough, here are several loose ends to tie up before going to the closing table—

-Contact the local energy provider and switch the service over to your name. You can also do this retroactively, but you might as well take care of it before you start the moving process.

-Schedule a time for internet and TV to be set up. You'll want to make sure that the seller has deactivated their account if you are planning on going with the same provider. As is the case with Comcast, they will not let you initiate new service until the previous owners close out their account.

-Make sure that your homeowners policy is in place and ready to take effect at the time of closing. Even if you are in a situation where the seller will maintain possession for a few days after the closing, you will need to have insurance on the property.

-Set up a time for a locksmith to come out and change out the locks on the property. There is no telling who that crazy seller gave copies of the keys to.

-Unless you negotiated it as part of the contract, arrange a time for cleaners to get out to the property before you have everything moved in. Most sellers will provide you with a clean place anyway, but that is more customary than anything.

-Your broker or the seller may provide you with one as part of the negotiations, but in the case they didn't, connect with a home warranty company and get one in place. The home warranty is different than your homeowners insurance in that it will protect you should the systems of your house fail. Most warranty companies cover appliances, electrical, plumbing, duct work, HVAC just to name a few items. The premium will need to be renewed annually.

-Fast forward to post-closing. Most of the time, buyers set up their loans with an escrow account for their insurance and property taxes. If that is the case for you, don't freak out when you get a bill in the mail a few weeks after closing for your insurance premium. That will have been collected at closing if you arranged for the lender to hold funds. You will also get bills for the taxes come spring. It never hurts to double check that your lender is going to be paying this out of an escrow account, but your closer and/or lender should have gone over how you set this up at closing. You won't need to worry about water service being transferred over to your name, as this will be taken care of at the closing table by the title company (at least this is the case in CO).

-If something should go wrong or break upon moving in, or any time for that matter, give your agent a call. Most have dealt with whatever issue you are going to throw at them before, and they probably have some good contacts to recommend. Something comes up more often than you may think, so they are ready and willing to help.

-Lastly, you must plan one hell of a housewarming party. I recommend inviting your awesome broker who helped you secure your place, because they no doubt love parties. There is no set timeframe on when it is acceptable to hold a housewarming party, but we recommend within the first three months.

Questions?

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