

WISCONSIN REALTORS® ASSOCIATION

FIRST-TIME HOMEBUYERS GUIDE



Congratulations!

**You have decided to buy a new home.
This booklet will help you take this big step
by describing the key issues you will deal with
in the home-buying process.**



**Wisconsin REALTORS® Association
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Role of the REALTOR®

Frequently, the first person you work with before buying your first home is a REALTOR®. REALTORS® are real estate licensees that have joined the REALTOR® organization and have subscribed to the highest code of ethics in the industry. REALTORS® will provide you with helpful advice on many aspects of the home buying process. Under Wisconsin law the REALTOR® may represent either you or the seller, or both you and the seller (multiple representation). In any relationship you choose the REALTORS® primary duty is to serve you by providing brokerage services with skill and care, providing timely and accurate market information, disclosing material adverse facts (defects), keeping your confidential information confidential unless state law requires disclosure, safeguarding any money you have given the REALTOR® to hold (earnest money) and, when the REALTOR® is handling negotiations between you and the seller, by negotiating in an objective and unbiased manner (including disclosing the advantages and disadvantages of any offers or counter-offers you or the seller make).

You and your REALTOR® may decide that buyer agency is right for you. In a buyer agency relationship you will be asked to sign a buyer agency agreement (just as a seller signs a listing contract). Once the buyer agency agreement is signed you become the REALTOR'S® client and are entitled to additional disclosure and loyalty duties from your REALTOR®. As a buyer "client" you will have obligations to cooperate with your REALTOR® and to keep him or her informed of properties you may locate. If you decide on buyer agency you may be asked to agree to "multiple representation." Your agreement to "multiple representation" is necessary if you want to look at any properties that your REALTOR® has listed. Your REALTOR® will represent both parties in this case and will take a neutral position in any offer negotiations between you and the seller.

Equal Opportunity in Housing

Federal, state and local laws and the REALTOR® Code of Ethics require sellers and REALTORS® to provide all buyers an equal opportunity to purchase a home. Under Wisconsin law it is illegal to discriminate in renting or selling because of:

SEX, RACE, COLOR SEXUAL ORIENTATION, DISABILITY, RELIGION, NATIONAL ORIGIN, MARITAL STATUS, FAMILY STATUS, AGE, LAWFUL SOURCE OF INCOME, and ANCESTRY.

If you feel you may have been a victim of discrimination please contact:

The Wisconsin Department Of Workforce Development - Equal Rights Division

(414) 227-4384, (608) 266-6860, tty (414) 227-4081, tty (608) 264-8752

Web Site: http://www.dwd.state.wi.us/er/cr_bureau/cr_open_housing_law.htm

Private mortgage insurance and government mortgage insurance protect the lender against default and enable the lender to make a loan that the lender considers a higher risk. Lenders often require mortgage insurance for loans where the downpayment is less than 20% of the sales price. You may be billed monthly, annually, by an initial lump sum, or some combination of these practices for your mortgage insurance premium. Ask your lender if mortgage insurance is required and how much it will cost. Mortgage insurance should not be confused with mortgage life, credit life or disability insurance, which are designed to pay off a mortgage in the event of the borrower's death or disability.

Title Services

Title insurance is usually required by the lender to protect the lender against loss resulting from claims by others against your new home. However, a lender's title insurance policy does not protect you. To protect yourself from claims by others against your new home, you will need an owner's policy. Under the language of the State-approved offer to purchase the seller agrees to pay for your owners title policy but you will ordinarily have to pay for the lender's policy.

Closing.

Prior to closing you should receive copies of the closing statement(s) and other closing documents for review. Under federal law you have the legal right to review the HUD-1 Settlement Statement one business day before closing.

The closing statements will not only document the payment of all bills related to both the seller's and buyer's side of the closing, but it will also show the collection of moneys for any escrow accounts required by the lender. In most cases, for example, the lender will set up an escrow for property taxes and your monthly payments will include 1/12th of the estimated property tax bill. Your escrow account payments may include a "cushion" or an extra amount to ensure that the lender has enough money to make the payments when due. Federal laws limit the amount of the cushion to a maximum of two months of escrow payments.

The person servicing your loan should give you an initial escrow account statement. That form will show all of the payments which are expected to be deposited into the escrow account and all of the disbursements which are expected to be made from the escrow account during the year ahead. Your lender or servicer will review the escrow account annually and send you a disclosure each year which shows the prior year's activity and any adjustments necessary in the escrow payments that you will make in the forthcoming year.

Conclusion

The purchase of a home is an exciting and complicated process. Rely on professionals to assist you in the process whenever possible. With the assistance of appropriate experts your home buying journey will be a positive experience.

tion). Generally, an “as is” clause alerts the buyer that he/she is responsible to determine the condition of the property being purchased. The buyer should consider having expert inspectors inspect the property under the inspection contingencies in the offer to purchase. The use of an “as is” clause, however, does not necessarily mean that the seller may still not need to make some disclosures about the property or face possible liability.

First, the “as-is” seller cannot create an unreasonable risk of harm to others by not disclosing a dangerous defect. Second, the seller may not actively conceal a defect or prevent a buyer from investigating the property and discovering the defect. Third, the seller may be liable if he or she makes statements about the property, which turn out to be untrue. Finally, the seller may be liable in an “as is” sale if he/she doesn’t disclose material conditions which would be difficult for the buyer to discover during an inspection of the property. Thus the use of an “as is” clause is not always going to be an escape for the seller from all disclosures.

REALTOR®

REALTORS® must (with some exceptions) disclose material adverse facts to all parties, in writing and in a timely manner. These material adverse facts include property defects as well as other conditions which could affect the transaction. This disclosure duty extends to defects actually known by the broker as well as information known by the broker that suggests a material adverse fact might exist. Like the seller, the broker is not required to have technical knowledge such as a home inspector may have. If you feel that a REALTOR® failed to make a required disclosure, contact the REALTOR® directly. If following the discussion with the broker you are not satisfied you may file a complaint with the Department of Regulation and Licensing or the local REALTORS® Association.

Home Inspector

The State of Wisconsin regulates home inspectors. Buyers should only work with Wisconsin “registered” home inspectors. Your REALTOR® may provide you with the names of home inspectors working in your area but it is your responsibility to verify that the inspector that you hire meets your requirements. Because the minimum requirements for a home inspection under the home inspector regulations are not very extensive, it is important to discuss what parts of the property will be inspected and what parts will not before signing your home inspection contract. Your REALTOR® may provide a checklist for you to use to ensure all areas of the property you wish to have inspected are addressed by the home inspector or other inspectors or testers.

Other Inspectors and Testers

In addition to the home inspection, you may want to have other inspections and tests such as lead-based paint tests, radon tests, and furnace heat exchanger inspections. These must be addressed in the offer, as buyers are only authorized to have tests and inspections performed if the inspections or tests are

necessary to complete a contingency in the offer. Therefore, it is important that you discuss with your REALTOR® all of the inspections and tests you wish to complete and ask your REALTOR® to include appropriate contingencies in the offer.

Appraiser

Appraisers are ordinarily employed by the lender to verify the value of the property before the lender makes your mortgage loan. Some loan programs ask the appraiser to identify property defects the appraiser observes. Buyers should understand that appraisers are not required to have the type of technical knowledge that home inspectors have. Buyers should not consider the appraisal as a substitute for a home inspection or other inspection or test.

Financing Your New Home

Before you begin the house hunting process it is important to know what you can afford. This information can also be useful when you write your offer because it will assure the seller that you are a qualified buyer. Your lender can provide either a pre-qualification or a pre-approval.

A prequalification is an estimate of what you can afford. When you prequalify for a mortgage, the lender collects basic information regarding your income, monthly debts, credit history and assets, and then uses this information to calculate an estimated mortgage amount that you can afford.

A preapproval uses this basic information as well as electronic credit reporting to verify your credit worthiness.

To satisfy your obligations under the offer to purchase to deliver a “loan commitment” to the seller, only a document labeled a “commitment” can be used.

Buyers should be cautious when they review “loan commitments” received by a lender. Some loan commitments are issued before the property has been appraised and the lender reserves the right to not issue the loan if the property doesn’t appraise for the purchase price. Because delivery of a “loan commitment” may waive your protections under the financing contingency you will want to review the conditions stated in the “loan commitment” carefully before having it delivered to the seller.

Most of the more than 50 different mortgage types available will fall under two categories— fixed and adjustable rate—each with advantages to consider.

Fixed Rate Mortgage

The fixed rate mortgage is a traditional method of financing a home. The interest rate stays the same for the entire term of the loan (usually 15 or 30 years). Your payments are stable and predictable.

Adjustable Rate Mortgage (ARM)

The interest on an adjustable rate mortgage is linked to a financial index, such as a Treasury security, so your monthly payments can vary over the life of the loan, usually 25 to 30 years. Most adjustable rate mortgages have a lifetime cap

on the interest rate increase to protect the borrower. The lower initial payments on ARMs make it easier for buyers to qualify. Some ARMs may be converted to fixed rate mortgages at specified times, usually within the first five years.

Documents Needed to Apply for a Mortgage

When you apply for a mortgage, you will need to furnish information regarding your income, expenses and obligations. It will save time if you have the following items available:

- Two most recent pay stubs
- W-2 forms for the last two years
- Federal tax returns for the last two years
- Last two months' bank statements
- Long-term debt information (credit cards, child support, auto loans, installment debt, etc.)

The Financing Process

Your choice of lender and type of loan will influence not only your closing costs, but also the monthly cost of your mortgage loan. Often the price of a home mortgage loan is stated in terms of an interest rate, points, and other fees. A "point" is a fee that equals 1 percent of the loan amount. Points are usually paid to the lender, mortgage broker, or both, at the settlement or upon the completion of the escrow. Often, you can pay fewer points in exchange for a higher interest rate or more points for a lower rate. Ask your lender or mortgage broker about points and other fees.

A document called the Truth in Lending Disclosure Statement will show you the "Annual Percentage Rate" ("APR") and other payment information for your loan. The APR takes into account not only the interest rate, but also the points, mortgage broker fees and certain other fees that you have to pay. Ask for the APR before you apply to help you shop for the loan that is best for you. Your lender will likely require you to obtain certain closing services, such as a new survey, mortgage insurance or title insurance. It may also order and charge you for other loan-related services, such as the appraisal or credit report. A lender may also charge other fees, such as fees for loan processing, document preparation, underwriting, flood certification or an application fee. You may wish to ask for an estimate of fees and settlement costs before choosing a lender. Some lenders offer "no cost" or "no point" loans but normally cover these fees or costs by charging a higher interest rate.

"Locking in" your rate or points at the time of application or during the processing of your loan will keep the rate and/or points from changing until settlement or closing of the escrow process. Ask your lender if they charge a fee to lock-in the rate and whether the fee reduces the amount you have to pay for points. Find out how long the lock-in is good, what happens if it expires, and whether the lock-in fee is refundable if your application is rejected.

The HUD Office of Fair Housing and Equal Opportunity

1-800-669-9777 Web site: <http://www.hud.gov/fhe/fheo.html>

If you would like to file a complaint regarding a violation of the REALTOR® Code of Ethics, contact the local REALTORS® Association. You may contact the Wisconsin REALTORS® Association ((608)241-2047) for the location of the local REALTOR® Association with which you may be filing your complaint. Web Site: <http://www.wra.org/>

Terms of the Offer to Purchase

The offer to purchase is a legal contract and its language is very technical. Your REALTOR® will give you an overview of the contract and will explain your options in completing the offer to purchase form and any addenda. If your REALTOR® is working as your buyer's agent, he/she may provide advice regarding your negotiations but no REALTOR® can give you legal advice. You may wish to ask your REALTOR® for a copy of a document entitled: EXPLANATION OF STATE OF WISCONSIN WB-11 RESIDENTIAL OFFER TO PURCHASE developed by the Wisconsin REALTORS® Association. This document will provide a plain English explanation of the purpose of each section of the offer to purchase and should be helpful in assisting you in understanding this very complex transaction.

Selecting an Attorney

Before you sign an offer, you may want to ask an attorney to look it over. If you have not had a chance to talk to an attorney before you are ready to submit the offer, you can ask your REALTOR® to include an attorney review contingency. This contingency will allow your attorney to object to legal problems that he or she may find in the offer.

An attorney can also help you prepare for closing. Your REALTOR® will be able to provide the names of attorneys who practice real estate in your area.

Property Condition

One of the most important things for a first time home buyer to do is to learn as much about the property's condition as possible. The seller, REALTOR® (s), appraiser, home inspector and other inspectors and testers will be providing you information on the property's condition. You should read this section carefully so that you understand the role and limitations of each of these information sources.

Seller

Sellers will ordinarily disclose any defects that they are aware of (or have notice of) in the "property condition report" as well as in the offer to purchase. These disclosures are important but it is important to remember that the seller may have limited exposure to all or some parts of the property and is not likely to have the type of technical knowledge a professional inspector does. Some sellers do not make disclosures regarding property defects (an "as-is" transac-