

# Answers to Frequently Asked Questions

**What is a buyer's representation agreement:** A buyer's representation agreement is signed by the buyer(s) and the buyer's real estate agent. The agreement establishes the fact that the agent will work on behalf of the buyer, and will represent the buyer in the purchase of property. The agreement specifies the agent's role and duties, and the agent's fiduciary responsibility to the buyer.

**What is the difference between "pre-qualified" and "pre-approved"?** If you are "pre-qualified" you have determined, with a loan officer, how much you can afford to spend based on the down payment, your debts, and the amount the Mortgage Company will approve for your mortgage. Being "pre-qualified" is only a determination of your probable credit. If you are "pre-approved", your credit, employment and funds have been verified and approved by the lender. You will need to get pre-qualified with your lender before you begin to actively work with your Realtor. You should get pre-approved for your financing as soon as possible during the process of searching for your home.

**What are closing costs?** Closing costs are an accumulation of charges paid to different entities associated with the buying and selling of real estate. For buyers, they are usually about 3-5% of the total sales price of a property. Some of the closing costs you might encounter are: application fees, appraisal fee, county taxes, credit report, discount points, documentation fee, escrow fees, homeowners' association fees, loan fees, mortgage insurance, origination fees, tax registration and title insurance premium.

**What is a point?** One point is equal to 1% of the new loan amount. Whenever government regulation, state usury laws and/or competitive practices prohibit the lender from charging a rate of interest that would make the real estate loan competitive with other fields of investments, the lender must seek some method of increasing the yield for the investors. By charging "points," the lender makes more profit from your loan.

**What is earnest money?** When you execute a contract to purchase a home, you will have to provide an earnest money deposit. You will give the check for your earnest money to your Realtor, and the Realtor will give it to the title company. The title company will cash the check, and your earnest money will be held by the title company until the day that the sale closes. Typically, earnest money is about 1% of the sales price. You are given credit for your earnest money at closing, so in essence your earnest money becomes your down payment on the home purchase.

**What is title insurance?** Title insurance protects the named insured person(s) against loss because of defects, liens, encumbrances, adverse claims or other matters relating to the property that were not shown or Master Realtors, Inc.

disclosed to the new owner at the time of purchase. Title insurance assures that buyers are obtaining a “clear” title.

**What is the termination option and what is the option fee?** The termination option also known as “The Option Fee” is agreed to in the purchase contract. Both parties agree to a dollar amount (the termination/option fee) that the buyer will pay to the seller upon execution of the purchase contract. The fee buys the right for the buyer to terminate the contract for any reason during the termination option period. If the buyer terminates the purchase contract during the option period, the seller retains the termination fee. If the buyer goes through with the purchase, then the termination fee is refunded to the buyer at closing. The buyer should have a general property inspection, a wood-destroying insect inspection, and, if needed, a structural engineer inspection of the property performed during the option period.

**What is the difference between a home inspection and a home appraisal?** Your lender will require that an appraisal be done on the home you are purchasing. The appraisal is done by a licensed appraiser who provides a written report stating his/her opinion of the market value of the home. In most cases, the lender will set up the appraisal with an appraiser that frequently does work for that lender. Residential appraisals cost about \$300. Your lender will either require you to pay for the appraisal up front, or the cost of the appraisal will be added in to your closing costs.

A home inspection must be performed on a home before it is sold. Once an executed contract is in place, the home inspection is done during the option/termination period. Master Realtors will provide you with a list of inspectors, and you can choose one of them or any other licensed inspector. The inspector checks over the home thoroughly, and provides a written report that identifies any needed repairs and states the condition of the main physical components and systems of the home (such as plumbing, electrical, heating and cooling systems, roof, etc.). The inspector will issue a second report concerning wood-destroying insects and whether there are signs of past or previous infestations or treatments, or any conditions that are conducive to termites. The buyer pays for the inspection at the time it is performed. The cost is about \$300.

**What are the differences between HOA and HOB homeowner’s insurance policies?** Once you have your home under contract, you will need to set up your homeowner’s insurance. Information regarding your insurance must be given to the title company prior to closing. There has been, and continues to be, much confusion about homeowner’s insurance in Texas in the past few years.

There are two basic types of homeowner’s insurance policies that may be purchased in Texas. HOA policies do not provide coverage for as many situations as HOB policies, which means that an HOB policy is the best type of policy to have. But, HOB policies cost more than HOA policies because they provide broader coverage to potential damages to a home. Generally, HOA policies provide less coverage than HOB policies for damages caused by water and mold. An additional rider may be purchased to provide more extensive coverage for problems that are mold-related or due to water or moisture damage. It is advisable that you get a HOB policy, and that you be sure your policy provides coverage at replacement cost (instead of at a depreciated cost). Be sure that you fully understand the coverage you are getting. Work with Master Realtors, Inc.

an insurance agent that will answer all of your questions and provide you with the coverage you desire.

**Is VA or FHA financing unfair to sellers?** FHA and VA loans provide purchasers the opportunity to buy homes with minimal cash investment and sometimes at lower interest rates. The costs to sellers are slightly higher if the buyer's financing is FHA or VA, but the loans are not unfair to sellers. If sellers are willing to accept a VA or FHA purchase, then the number of potential buyers for their home is increased.