

THE PATH TO Homeownership

1

Save for Your Down Payment

Create a budget and do your research. There are lots of low down payment options available.



2

Know Your Credit Score

Learn your score and clean up outstanding debts like student loans and credit cards.



4

Get Pre-Approved

Differentiate yourself as a serious buyer and have a better sense of what you can afford.

3

Find a Real Estate Agent

Contact a local professional to guide you through the process.



5

Find a Home

Work with your agent to find a home in your budget that meets your needs.



6

Make an Offer

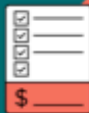
Determine your price and negotiate the contract.



8

Get a Home Appraisal

Ensure the property is worth the price you are prepared to pay.



7

Have a Home Inspection

Address any hidden issues in the home with the seller.



9

Close the Sale

Schedule a closing date once the loan is approved so you can sign the final paperwork.

SOLD



10

Move In Congrats!

You're a homeowner.



Pre-Qualification and Pre-Approval

Many buyers apply for a loan and obtain approval **before** they find the home they want to buy. Why?

Pre-qualifying will help you in the following ways:

1. Generally, interest rates are locked in for a set period of time. You will know in advance exactly what your payments will be on offers you choose to make.
2. You won't waste time considering homes you cannot afford.

Pre-approval will help you in the following ways:

1. A seller may choose to make concessions if they know that your financing is secured. You are like a cash buyer, and this may make your offer more competitive.
2. You can select the best loan package without being under pressure.

HOW MUCH CAN YOU AFFORD?

There are three key factors to consider:

1. The down payment
2. Your ability to qualify for a mortgage
3. The closing costs associated with your transaction.

DOWN PAYMENT REQUIREMENTS:

Most loans today require a down payment of between **3.5% and 5.0%** depending on the type and terms of the loan. If you are able to come up with a **20-25%** down payment, you may be eligible to take advantage of special fast-track programs and possibly eliminate mortgage insurance.

CLOSING COSTS:

You will be required to pay fees for loan processing and other closing costs. These fees must be paid in full at the final settlement, unless you are able to include them in your financing. Typically, total closing costs will range between **2-5%** of your mortgage loan.

The ELEVEN Commandments When Applying for a Real Estate Loan

1. Thou shalt **not** change jobs, become self-employed or quit your job.
2. Thou shalt **not** buy a car, truck or van (or you may be living in it)!
3. Thou shalt **not** use charge cards excessively or let your accounts fall behind.
4. Thou shalt **not** spend money you have set aside for closing.
5. Thou shalt **not** omit debts or liabilities from your loan application.
6. Thou shalt **not** buy furniture.
7. Thou shalt **not** originate any inquiries into your credit.
8. Thou shalt **not** make large deposits without first checking with your loan officer.
9. Thou shalt **not** change bank accounts.
10. Thou shalt **not** co-sign a loan for **anyone**.
11. Thou shalt **not** wire any money to title or other financial institutions without getting a verbal verification of the routing numbers.

What Happens After Making an Offer

Now that you have decided to buy your home, what happens between now and the time you legally own the home? In Colorado a Title Company will handle most of the following items.

Earnest Money – An agreement to convey starts the process once it is received at the Title Company. Once you submit the loan application, it is usually subject to a credit check, an appraisal, and sometimes, a survey of the property.

Tax Check – What taxes are owed on the property? The Title Company contacts the various assessor-collectors.

Title Search – Copies of documents are gathered from various public records: deeds, deeds of trust, various assessments and matters of probate, heirship, divorce, and bankruptcy are addressed.

Examination – Verification of the legal owner and debts owed.

Document Preparation – Appropriate forms are prepared for conveyance and settlement.

Settlement – A Closer from the title company will oversee the closing of the transaction: seller signs the deed, you sign a new mortgage (if required), the old loan is paid off and the new loan is established, and funds are wired between the buyer's lender, seller's mortgage company, buyer and seller. Seller, agents, attorneys, surveyors, Title Company, and other service providers for the parties are paid. Title insurance policies will then be issued to you and your lender.

Title Insurance - There are two types of title insurance:

- Coverage that protects the lender for the amount of the mortgage,
- Coverage that protects the equity in the property (typically paid by seller)

Both you and your lender will want the security offered by title insurance. Title agents search public records to determine who has owned any piece of property, but these records may not reflect irregularities that are almost impossible to find. Examples: unauthorized seller forges the deed; unknown, but rightful heir to property shows up after the sale to claim ownership; conflicts arise over a will from a deceased owner; or a land survey showing the boundaries of your property is incorrect.

For a one-time charge at closing, title insurance will safeguard you against problems including those events an exhaustive search will not reveal. Title insurance is required by the lender to protect their interest in the property.

BUYER ADVISORY – Residential

There are certain aspects and risks associated with purchasing property. Buyer is advised of some of those aspects and risks as follows:

A. Contract Review. Under Colorado law, Broker is permitted to prepare Colorado Real Estate Commission approved contracts for Buyer. Additionally, there are several contract forms, such as HUD, bank owned and builder contracts that are not approved by the Colorado Real Estate Commission which Broker may also participate. However, the Broker's preparation and review of a contract is not a substitute for Buyer's attorney's review. Buyer is encouraged to review all contracts carefully and to have all contracts reviewed by Buyer's attorney; particularly those contracts not approved by the Colorado Real Estate Commission as Broker should not advise Buyer regarding those contracts.

B. Earnest Money Disputes. While there are several provisions in the Colorado Real Estate Commission approved contract for the Buyer to terminate and get the Buyer's earnest money back, sometimes it is not that simple. First, the Buyer must terminate prior to the applicable deadline and reason the Buyer is terminating must be related to the provision the Buyer is using to terminate the contract. In other words, a Buyer cannot just simply "change their mind." Second, sometimes sellers do not believe buyers when they terminate and may claim the Buyer acted in "bad faith" and demand the Buyer's earnest money even though the Buyer's reason for terminating was well within the contract. Once both parties make competing claims to the earnest money, the earnest money will be "frozen" until; 1) the parties reach an agreement (whether through mediation or otherwise) or, 2) a Court decides who receives the earnest money.

C. Obtaining a Loan. There are many different types of lenders and loans, each offering different interest rates, terms and costs. Buyer is encouraged to shop around for different loan alternatives. HUD publishes a "Shopping for Your Home Loan" booklet containing information about the loan process. Upon request, Broker can provide the Buyer with a copy. Also, on or before the "Loan Objection Deadline" in the Contract to Buy and Sell Real Estate, the Buyer will need to decide if Buyer is satisfied with the status of Buyer's potential new loan. If Buyer is unsatisfied, Buyer should consider terminating the contract. If Buyer is satisfied, Buyer may continue with the contract, however, Buyer's failure to close will likely mean the seller will claim the Buyer's earnest money.

D. Wire Fraud. Emails for parties in a transaction have come under attack by hackers which could lead to the Buyer inadvertently wiring funds to the hacker instead of the intended party. Anytime Buyer is supplying confidential information such as social security numbers or bank account numbers, Buyer should provide the information by phone instead of by email. This includes responding to what appears to be a legitimate email request for information from a participant in the transaction.

E. Disclosures. Sometimes the multiple listing service, online property listings, public records, contract and/or the Seller's Property Disclosure make representations that are false or fail to disclose material defects affecting the property. The Broker has no way of knowing what the seller, government and/or the listing broker failed to disclose and is under no duty to investigate the accuracy or omissions of any such representations.

F. Buyer's Inspection(s). Buyer's inspection of the property is an important part of the home buying process as Buyer typically is taking the property "as-is." If Buyer desires to have multiple inspections performed on the property by additional professionals, Buyer should do so prior to the "Inspection Objection Deadline" in the Contract to Buy and Sell Real Estate. Buyer should consider the following inspection concerns:

1. Home Inspection(s). There are several types of inspectors that specialize in different areas, for example: structural engineers; geotechnical engineers; roofers; plumbers; sewer line scopes; electricians; HVAC contractors; environmental professionals; industrial hygienists; surveyors; etc. Buyer is strongly encouraged to perform as many inspections on the property as Buyer deems necessary. Many home inspectors are certified through the American Society of Home Inspectors (ASHI) or the National Association of Home Inspectors (NAHI). The Brokerage Firm strongly encourages the Buyer, at a minimum, to hire a professional, certified, home inspector to conduct an inspection of the physical structure on the property. While a certified home inspector cannot guarantee that the home inspection will identify every single problem with the structure, a certified home inspector should investigate several different components.

2. Environmental Hazards. There are many different environmental hazards that may affect the property and/or the Buyer/Buyer's family's health. Such environmental hazards may include, but are not limited to: radon; lead-based paint; expansive soils; asbestos; formaldehyde; carbon monoxide; pet urine and/or dander; mold; prior methamphetamine (METH) use; and/or radioactive, toxic or biohazardous materials. The Agent strongly recommends the Buyer hire independent environmental professionals to perform any environmental testing desired by Buyer.

3. Square Footage. The square footage represented on the multiple listing service, square footage disclosure and/or other advertisements and disclosures may be approximate figures, may not have been measured and may not have been verified. If the Buyer is concerned about the square footage, Buyer should hire a licensed civil engineer or an appraiser of Buyer's choice to verify the square footage.

4. Septic. El Paso county does have a requirement for a septic system inspection, certification before a seller can sell the property. If Buyer is interested in purchasing a property that has a septic system, then the Buyer should check with the appropriate governmental entity to determine if there are any applicable requirements for the septic system.

5. Water. Under Colorado law, the seller is required to disclose the “source of water” for the property, however, it is the Buyer’s responsibility to investigate the water provider’s ability to provide sufficient water to the property long-term. Additionally, if the property has a well, the Buyer should review the well permit, and conduct tests of the well both for water production and potability.

6. Remodeling. Beginning April 22, 2008, the Environmental Protection Agency (“EPA”) issued a rule requiring the use of lead-safe practices for repair, renovate and paint projects that disturb lead-based paint in homes, child care facilities, and schools built prior to January 1, 1978. If Buyer has any intentions of ever remodeling a home built before January 1, 1978, the Buyer may want to test the home for lead-based paint and/or consult with a lead-based paint certified contractor.

7. Insects, Parasites and Disease. There are many naturally occurring insects, parasites and diseases that attack and potentially kill trees in Colorado. Some examples include, but are not limited to: mistletoe, bark beetles, emerald ash borer, tussock moth, scale, mites, aphids, rust disease, root rot, cankers, etc. If diagnosed early, many such tree ailments can be treated. The Brokerage Firm encourages Buyer to hire a forester to inspect the trees on the property. For more information, the Buyer may contact the local branch of the Colorado State Forest Service or visit their website at csfs.colostate.edu.

8. Wild Animals. The property may be located in an area populated with coyotes, foxes, bears, mountain lions, snakes or other wild animals. If Buyer is concerned about the proximity of wild animals to the property, Buyer should contact the Colorado Division of Wildlife.

9. Other Matters. In addition to the above, there may also be other matters that may affect the Buyer’s use and enjoyment of the property. Such other matters may include, but are not limited to: building permits for the improvements to the property; zoning of the property; encroachments onto the property; existing or proposed transportation projects, adjacent development projects; noise and/or odor. Brokerage Firm strongly recommends the Buyer thoroughly investigate all matters related to the property that matter to the Buyer.

10. Inspection of Foreclosures, Short Sales and Bank Owned Properties. If the Buyer is purchasing a property foreclosure, a short sale, or bank owned property, the Buyer may be purchasing a distressed property. Many times these types of properties are vacant and/or the sellers are unaware of major problems that may exist on the property. It is always important to consider obtaining appropriate inspections; however, inspections are even more important when buying a foreclosure, short sale or bank owned property.

G. Surveys. The lot size represented on the multiple listing service and/or other advertisements and disclosures may be approximate figures and may not have been verified. Many properties have not been surveyed for accurate lot size, encroachments or boundary line locations. The Agent encourages the Buyer to hire a surveyor to review the boundary lines, lot

size and encroachments that may exist on the property on or before the “New ILC or New Survey Deadline” in the Contract to Buy and Sell Real Estate. One less expensive product a Buyer may purchase from a surveyor to review lot size, boundaries and encroachments is an “Improvement Location Certificate” or “ILC,” however, an ILC is very limited in its scope and protection of the Buyer.

H. Short Sales. The Buyer may decide to make an offer on a property that is a “Short Sale” meaning that the purchase price offered by the Buyer is insufficient to pay all of the liens against the property and the seller’s costs of sale at closing. In order to close on a Short Sale, the seller’s lien holders will need to approve the Buyer’s contract before closing. The Short Sale process typically is a lengthy process and could take up to four months or longer to get a response from the seller’s lien holders. Even if the seller’s lien holders respond, the seller’s lien holders may reject the Buyer’s contract or the seller may reject the terms of the seller’s lien holder’s acceptance of the Short Sale. This could ultimately mean that the Buyer’s contract will terminate through no fault of the Buyer or seller. Buyer is encouraged to consult with legal counsel about Short Sales.

I. Insurance. The Buyer’s lender will require that the Buyer obtain homeowner’s insurance at closing. Even if not required by a lender (or if Buyer is paying cash), the Buyer should obtain homeowner’s insurance. While investigating homeowner insurance companies, Buyer should consider asking for a CLUE report on the property. A CLUE report gives details about claims that have been filed against the property in the past several years. The Buyer should make sure their insurance coverage is adequate for the property they are purchasing. For instance, some insurance carriers may have exclusions, reduced coverage or refuse to provide coverage for: high risk of forest fires, swimming pools, shake roofs, additional structures, etc. Additionally, the Buyer should check with the Buyer’s lender about whether the lender will be requiring flood insurance. Sometimes lenders require flood insurance if the property is located in the flood plain as identified by FEMA.

J. Home Warranty. A home warranty is a product that may be available for purchase at the time of closing that may cover some or all of the repair or replacement costs of several different components of the home. If Buyer desires to have a home warranty on the property, Buyer is encouraged to evaluate the terms of coverage and financial strength of the company offering the home warranty.

K. Title Review. The Buyer will receive a title commitment after signing the contract and before closing. The title commitment is the basis for the Buyer’s title insurance policy the Buyer will receive after closing. The title insurance policy is a critical legal document that often includes information about the Buyer’s ownership rights to the property. The Buyer is encouraged to retain legal counsel to review the title commitment before the “Title Objection Deadline” in the Contract to Buy and Sell Real Estate.

L. HOA Documents. Condominiums and some townhomes as well as some single family homes have mandatory membership in homeowner’s associations which may require fees

from homeowners including monthly dues and special assessments and may impose requirements and restrictions on homeowners. The Buyer is strongly encouraged to seek legal counsel to review the homeowner's association's governing documents and financial viability. Broker is unable to render any opinion on the financial stability, or legality of any homeowner's association.

M. Special Taxing Districts. The property the Buyer may want to purchase may be located in one or more special taxing districts. Special taxing districts are communities that have increased property taxes to pay for debt and/or services. For example, a newer community may have created a special taxing district to pay back debt incurred for roads, curb and gutter, parks, water lines, sewer lines, etc. Buyer should investigate the special taxing districts in which the property is located by contacting the county treasurer, by reviewing the certificate of taxes for the property and by obtaining further information from the board of commissioners, the county clerk and recorder or the county assessor.

N. Seller Possession after Closing. Sometimes sellers wish to maintain possession of their property for a short period of time after closing. While this is not unusual, this can also lead to problems for the Buyer. For instance: the seller may not move out on the specified date forcing the Buyer to evict the seller; the seller may damage the property on the way out; the short-term tenancy may violate local ordinances and/or HOA rules and regulations; the property may not have adequate (or appropriate) property insurance coverage after closing. If the Buyer is willing to allow the seller to occupy the property after closing, a post-occupancy agreement will be drafted for both Buyer and Seller signatures to protect both parties. Buyer's home owner's insurance will go into effect on the closing date and Seller/renter will obtain renter's insurance. Buyer is encouraged to seek legal counsel and discuss insurance coverage with Buyer's insurance agent for general liability (e.g. slip and fall) as well as casualty coverage (e.g. fire) for the property as well as potential other insurance coverage issues.

O. FIRPTA. The Foreign Investment Real Property Tax Act (FIRPTA) requires buyers purchasing property from a non-resident, alien investor ("Foreign Investor") to withhold a portion of the purchase price to ensure the Foreign Investor pays any tax they might owe. However, many title companies do not do the withholding and require the buyer to sign an indemnity agreement at closing which states that the buyer cannot pursue the title company if the buyer was required to withhold under FIRPTA. This means the buyer could be responsible for the amount that should have been withheld under FIRPTA plus penalties and interest. Buyer is encouraged to check with the title company early to find out if the seller is a Foreign Investor and if a portion of the purchase price will need to be withheld at closing. Additionally, buyer is encouraged to speak with a tax lawyer.

P. Property Value. Broker may provide information concerning the asking or sales prices of properties comparable to the property Buyer wishes to purchase. However, the Broker is not an appraiser and makes no warranties as to the value of ANY property. Buyer is strongly encouraged to obtain an appraisal prior to any Appraisal Deadline in the Contract to Buy and Sell Real Estate to verify the value of the property.

Q. Recommendation of Professionals. The Broker may provide the Buyer with names of lenders/mortgage brokers, inspectors, attorneys, accountants, appraisers, engineers, surveyors, or other professionals. However, Broker cannot guarantee that such professional will provide the lowest price or the best service. Therefore, Buyer is strongly encouraged to interview several different professionals before choosing the professional of Buyer's choice. In the event Buyer is unhappy with a professional given to Buyer by the Broker, Buyer should notify the Broker of Buyer's dissatisfaction.

What You Should Know About Your Right to Inspect

Buying a property can be hazardous to your wallet if the upkeep on a property's major systems (plumbing, electric, heating and cooling), materials (roofing, siding, foundation, drywall, decks and patios), and fixtures (carpeting and pad, built-in appliances, cabinets, etc.) have been seriously neglected and particularly if evidence of this neglect is not obvious. Today's properties are staged to LOOK their best and one would hope that means they would be in their best structural and functional condition as well.

However, without a thorough inspection of the property by a qualified expert in home repairs and maintenance, some very expensive repair and replacement costs might be well hidden by great decorating. **However, Buyers should also be aware that the house does not have to be perfect, totally updated, nor free of any signs of wear and tear and age; at a minimum. In terms of Buyer's rights it needs to be safe – free of safety and health issues.**

When a buyer and seller enter into a contract, the Seller has certain obligations to disclose any known defects, needed repairs, and violations of law, which the home may manifest. Colorado law follows a doctrine of "implied habitability" rather than "caveat emptor" ("buyer beware"). This means that Sellers are presumed to be selling a home that is habitable, structurally sound, and functional unless the Seller otherwise informs the Buyer. As a result, home Sellers must disclose any significant problems they have experienced with their homes and what (if anything) they did to remedy the problems.

Sellers Property Disclosure Form: Sellers disclose by completing a Colorado Real Estate Commission approved form that includes questions about appliances, mechanical systems (electrical/plumbing/heating systems), roof, site conditions, and known easements and encumbrances. By law, a Buyer must receive a copy of this form during the contract negotiation process and a Buyer may rely on the Seller's representations in determining whether the property condition is satisfactory. Failure to honestly disclose may result in serious issues for the Seller if a Buyer experiences problems with the property.

Lead Based Paint: Lead is a common ingredient in house hold paint prior to 1978 and can pose a problem for children and pets when ingested. A lead based paint disclosure identifying that the buyer understands the risks is required to be signed prior to making an offer on a property built before 1978. Buyers always have the option to test for lead based paint during the inspection period.

Radon: Radon is a known carcinogen. It is a gas that vaporizes from decomposing limestone and enters the home through the foundation. It is recommended to conduct a Radon test during the inspection period for piece of mind (good results), mitigation (high results), and for resale purposes in the future. It is also important to understand the risks of Radon so you can make an informed decision. More information can be obtained from <http://www.ext.colostate.edu/pubs/consumer/09953.html> and <https://www.epa.gov/radon/radon-resources-home-buyers-and-sellers>.

Inspection Rights: A Buyer's inspection rights are virtually unlimited under this provision. It is usually recommended that the Buyer hire a professional inspector or specialized technical engineers to inspect the property. If the Buyer finds any objectionable items, the Buyer and Seller have until a given time (Resolution Deadline) to agree on any repairs to be completed by closing. If the Buyer and Seller cannot agree, the contract is null and void and all earnest money is returned to the Buyer.

This process involves 7 formal steps:

1. Buyer hiring an inspector, scheduling an inspection date and time prior to the Inspection Objection deadline in the Contract and having other specialists provide more specific opinions if necessary (i.e. roof, furnace, radon). The Buyer may waive their right to inspect in writing, though this is not advised. In addition, Buyers rights may be limited by the type of sale. Many homes being sold today that have been foreclosed on or that are subject to a "short sale" are sold "as is." This means the Buyer assumes responsibility for any repairs or replacements needed. They may still inspect and retain the right to withdraw the contract and have their earnest money returned if the repair costs are too high.
2. Buyer receiving an Inspection Report from the inspector based on their findings.
3. Buyer giving the Seller an Inspection Objection potentially including a request for repairs and/or replacements that turned up on Inspection.
4. Seller providing the Buyer with an Inspection Resolution describing what, among the Buyer's requested repair and replacement items, the Seller is willing to do.
5. Buyer accepting or rejecting the Seller's Resolution and negotiating until they reach mutual agreement on work to be done, if any, or the Buyer withdrawing the offer and asking for the return of the earnest money.
6. Seller providing evidence of work done, if any.
7. Buyer walking through the property prior to closing to verify work is completed and condition of the house when vacated.

The Buyer's Agent may assist in the Inspection process in the following ways:

1. Going over the Buyer's right to inspect with them;
2. Providing the names of several Inspectors;

3. Giving the Inspector access to the property and attending the Inspection with the Buyer so that items that are found and that appear on the Inspector's Report are better understood;
4. Writing up an "Inspection Objection," based upon directives from the Buyer on what they want as a result of the Inspection. Among these could be to:
 - a. Accept the property "as is," or
 - b. Request that the Seller make repairs or replacements as necessary; or
 - c. Agree to share the cost of the repairs and replacements needed if any, or
 - d. Withdraw the Buyer's offer on the property;
5. Reviewing the Objection notice with the Buyer and send to the Selling agent;
6. Reviewing the Seller's response with the Buyer, formally referred to as the "Inspection Resolution," which will typically include:
 - a. Agreeing to some or all of the repairs and replacements requested by the Buyer; or
 - b. Agreeing to part of the repairs and replacements requested; or
 - c. Agreeing to credit the Buyer at Closing for the costs of repairs and replacements that cannot be executed prior to Closing, or which the Buyer may prefer to handle with their own contractor; or
 - d. Refusing to do any of the repairs and replacements requested;
7. Communicating the Seller's decision to the Buyer;
8. Assisting the Buyer in reminding the Listing agent of the need for receipts or other confirming documents showing that the work has been done;
9. Assisting the Buyer with a property "walk thru" prior to closing to confirm that work was completed to the Buyer's satisfaction.

The Buyer's Agent does NOT assume any responsibility for the following:

1. Inspecting the property and finding any problems that exist for the Buyer;
2. Choosing an Inspector for the inspection;
3. Guaranteeing or affirming the quality of the Inspector's work;
4. Making judgments for the Buyer on what work should be required of the Seller;
5. Influencing the Seller or Buyer's selection of repairmen to do the work;
6. Guaranteeing the quality of the work performed by repairmen used by the Seller and/or Buyer.

If a Buyer has any questions about this process, the Buyer should consult their Buyer's Agent during contract writing and negotiations.

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 - d. Refusing to do any of the repairs and replacements requested;
16. Communicating the Seller's decision to the Buyer;
17. Assisting the Buyer in reminding the Listing agent of the need for receipts or other confirming documents showing that the work has been done;
18. Assisting the Buyer with a property "walk thru" prior to closing to confirm that work was completed to the Buyer's satisfaction.

The Buyer's Agent does NOT assume any responsibility for the following:

7. Inspecting the property and finding any problems that exist for the Buyer;
8. Choosing an Inspector for the inspection;
9. Guaranteeing or affirming the quality of the Inspector's work;
10. Making judgments for the Buyer on what work should be required of the Seller;
11. Influencing the Seller or Buyer's selection of repairmen to do the work;
12. Guaranteeing the quality of the work performed by repairmen used by the Seller and/or Buyer.

If a Buyer has any questions about this process, the Buyer should consult their Buyer's Agent during contract writing and negotiations.

Real Estate Glossary

Acceptance: the date when both parties, seller and buyer, have agreed to and completed signing and/or initialing the contract.

Adjustable Rate Mortgage: a mortgage that permits the lender to adjust the mortgage's interest rate periodically on the basis of changes in a specified index. Interest rates may move up or down, as market conditions change.

Amortized Loan: a loan that is paid in equal installments during its term.

Appraisal: an estimate of real estate value, usually issued to standards of FHA, VA and FHMA. Recent comparable sales in the neighborhood is the most important factor in determining value

Appreciation: an increase in the value of a property due to changes in market conditions or other causes. The opposite of depreciation.

Assumable Mortgage: purchaser takes ownership to real estate encumbered by an existing mortgage and assumes responsibility as the guarantor for the unpaid balance of the mortgage.

Bank Owned or Real Estate Owned (REO): When a homeowner loses their home to foreclosure, their property reverts to the first lien holder, which is the first mortgage holder on the property. Mortgage company hires a listing agent to list the property in the local MLS area to find a buyer for the property. Most bank owned properties are sold As – Is where the bank/seller will not agree to make repairs to the property.

Bill of Sale: document used to transfer title (ownership) of PERSONAL property.

Cloud on Title: any condition that affects the clear title to real property.

Consideration: anything of value to induce another to enter into a contract, i.e., money, services, a promise.

Deed: a written instrument, which when properly executed and delivered, conveys title to real property.

Discount Points: a loan fee charged by a lender of FHA, VA or conventional loans to increase the yield on the investment. One point = 1% of the loan amount.

Easement: the right to use the land of another.

Encumbrance: anything that burdens (limits) the title to property, such as a lien, easement, or restriction of any kind.

Equity: the value of real estate over and above the liens against it. It is obtained by subtracting the total liens from the value.

Escrow Payment: that portion of a mortgagor's monthly payment held in trust by the lender to pay for taxes, hazard insurance and other items as they become due.

Fannie Mae: nickname for *Federal National Mortgage Corporation (FNMA)*, a tax-paying corporation created by congress to support the secondary mortgages insured by FHA or guaranteed by VA, as well as conventional loans.

Federal Housing Administration (FHA): an agency of the *U.S. Department of Housing and Urban Development (HUD)*. Its main activity is the insuring of residential mortgage loans made by private lenders. The FHA sets standards for construction and underwriting but does not lend money or plan or construct housing.

FHA Insured Mortgage: a mortgage under which the *Federal Housing Administration* insures loans made, according to its regulations.

Fixed Rate Mortgage: a loan that fixes the interest rate at a prescribed rate for the duration of the loan.

Foreclosure: procedure whereby property pledged as security for a debt is sold to pay the debt in the event of default.

Freddie Mac: nickname for *Federal Home Loan Mortgage Corporation (FHLMC)*, a federally controlled and operated corporation to support the secondary mortgage market. It purchases and sells residential conventional home mortgages.

Graduated Payment Mortgage: any loan where the borrower pays a portion of the interest due each month during the first few years of the loan. The payment increases gradually during the first few years to the amount necessary to fully amortize the loan during its life.

Lease Purchase Agreement: buyer makes a deposit for future purchases of a property with the right to lease property in the interim.

Lease with Option: a contract, which gives one the right to lease property at a certain sum with the option to purchase at a future date.

Loan to Value Ratio (LTV): the ratio of the mortgage loan principal (amount borrowed) to the property's appraised value (selling price). Example – on a \$100,000 home, with a mortgage loan principal of \$80,000 the loan to value ratio is 80%.

Mortgage: a legal document that pledges a property to the lender as security for payment of a debt.

Mortgage Insurance Premium (MIP): the amount paid by a mortgagor for mortgage insurance. This insurance protects the investor from possible loss in the event of a borrower's default on a loan.

Note: a written promise to pay a certain amount of money.

Origination Fee: a fee paid to a lender for services provided when granting a loan, usually a percentage of the face amount of the loan.

Private Mortgage Insurance (PMI): see *Mortgage Insurance Premium*.

Second Mortgage / Second Deed of Trust / Junior Mortgage / Junior Lien: an additional loan imposed on a property with a first mortgage. Generally, a higher interest rate and shorter term than a "first" mortgage.

Settlement Statement (HUD-1): a financial statement rendered to the buyer and seller at the time of transfer of ownership, giving an account of all funds received or expended.

Severalty Ownership: ownership by one person only. Sole ownership.

Short Sale: When the homeowner owes more on the home than the home is worth and has a documented hardship, they can negotiate with their mortgage company to sell the home for less than they owe on the mortgage. The lender agrees to absorb the loss or collect from the seller in the future. This is a common occurrence in a declining market. Short sale transactions can take from 3 weeks to over 6 months to obtain approval from the lender. Most short sales are sold As – Is.

Tenancy In Common: ownership by two or more persons who hold an undivided interest without right of survivorship. (In event of the death of one owner, his/her share will pass to his/her heirs.

Title Insurance: an insurance policy that protects the insured (buyer or lender) against loss arising from defects in the title.