For Sale By Owner - *FSBO*

Greetings Valued Client,

This booklet is provided specifically for the “FSBO” (For Sale By Owner), like you, who has made the decision to sell your home without the assistance of a real estate professional. Depending on your personal knowledge and experience, and the circumstances of your transaction, this process may be easy for you or it may turn out to be very complicated.

This information is intended to acquaint you with the home selling process and give you helpful tips about resources, the real estate industry and requirements and regulations which may apply.

We hope you find this booklet helpful and please remember—when you find a buyer, be sure to write Lawyers Title into the purchase contract.

Good luck on selling your home!

Preparing Your House for Market

First Impressions First

- Let the front of your house greet guests with a clean, maintained yard by fertilizing lawns, planting fresh seasonal flowers, trimming overgrown shrubbery.
- Painting can be expensive, but a little touch up goes a long way.
- Make sure your front door is solid, fresh, and welcoming.
- Inspect the roof for necessary repairs and any visible broken tiles or shingles.
- Repair cracks in the driveway and sidewalks. Clean up oil stains.
- Mend or paint neighboring fences.

A Little Decoration Goes a Long Way

- Simple, inexpensive redecorating such as paint and accessories can result in a quicker sale at a higher price. Light neutral paint colors, such as off-whites, permit most everyone to "imagine" their furnishings in your home.
- Clean carpets if they are heavily soiled. Spot clean stains.

Eliminate the Distractions

- Repair the minor flaws that can detract from your home's value, such as leaky faucets, sticking windows and doors, broken handles and knobs.
- Remove cobwebs from ceilings and other areas.

Never Enough Space

- Remove all unnecessary items in your attic or basement and organize all closets to show ample space.
- Remove excess furniture so rooms don't look small and cluttered.
- Have a garage sale to dispose of unneeded items – looks better now and less to move later!

Squeaky Clean Bathrooms!

- Check and repair caulking in showers and bathtubs.
- Install new shower curtain liners. Keep bathrooms looking and smelling fresh.

Open House Preparation Checklist

- If possible, make arrangements to be out of the house to permit the agent to do “their job.” If you are home, don’t force conversation with potential buyers. Be polite, answer questions, and point out highlights. They want to inspect your house, not make new friends.
- Protect your pets. Keep them out of the way in a restricted area or even out of the house.
- Open all blinds and drapes to make the home light and cheerful.
- Turn on additional lights and lamps as needed.
- Remove excess clutter from floor, tables and counter tops.
- Keep your valuables safely locked up or out of sight.
- Clean the bathrooms so they sparkle!
- Don’t forget to make the bed and do the dishes.
- Dust and vacuum the house thoroughly.
- Remove excess toys and equipment from yards.
- Wash down your driveway and patios.
- Turn off all TVs. Very soft background music may be acceptable in some cases.
- Fresh flowers in the front yard, on the porch, and in the house can create a welcoming effect.
- Light refreshments such as tea and cookies are a nice touch – fresh baked cookies or simmering, cinnamon potpourri creates a pleasant aroma (or check with your agent to see if refreshments will be provided).

Escrow for Sellers & Buyers

What Is Escrow?

Escrow is a service which provides the public with a means of protection in the handling of funds and/ or documents.

Why Is Escrow Needed?

Whether you are the buyer or the seller, you want assurance that no funds or property will change hands until all instructions have been followed. With the increasing complexity of business, law and tax structures, it takes a trained professional to supervise the transaction.

Who Chooses the Escrow?

The selection of the escrow holder is normally done by agreement between the principals. If a real estate agent is involved, they may recommend an escrow holder. However, it is the right of the principals (seller and buyer) to use an escrow holder who is competent and experienced in handling the type of escrow at hand. You can ask a real estate agent or lender to recommend two or three different escrow companies to choose from. You may also find escrow companies listed in the yellow pages of the phone book under either Real Estate Escrow, Escrow or Real Estate Title Insurance.

Escrow Typically Includes the Following Valuable Transaction Services:

- Prepare escrow instructions
- Serve as the communication link to all transaction parties
- Request preliminary report/commitment for title insurance
- Request a beneficiary's statement or pay-off demand relating to existing financing
- Comply with lender's requirements as specified in escrow agreement
- Receive purchase funds from the buyer
- Prepare or secure the transfer deed or other documents related to escrow
- Prorate taxes, interest, insurance and rents according to instructions
- Secure releases of all escrow contingencies or other conditions as required
- Record deeds and any other documents as instructed
- Request issuance of the title insurance policy as instructed in Purchase Contract
- Disburse funds as authorized, including charges for title insurance, recording fees, commissions and loan payoffs
- Prepare final accounting statements for the parties
- Escrow is considered "closed" when all documents are recorded and instructions have been carried out

Escrow does not offer legal advice, negotiate the transaction or offer investment advice.

The Title Company's Role

The purchase of a home is often the largest single financial investment many people may make in their lifetime. The importance of fully protecting such an investment cannot be overly stressed. A basic home ownership protection essential to the security of the home is safe, sound, reliable title insurance.

What Is Title Insurance?

It is the application of the principles of insurance to risks present in all real estate transactions. These risks are divided into two main categories: hidden hazards that cannot be detected in the examination of title, and human errors which will always be with us. Examples of hidden hazards are forgery, incompetence of grantor or mortgagor, unknown heirs, fraud, impersonation, etc.

Title insurance differs from other types of insurance by protecting against future losses arising out of events that have happened in the past. There are no annual premiums. One premium, based on the amount of the sale or mortgage, is paid when the policy is issued and is good for the life of the policy. A lender's policy, insuring the lender, stays in effect until the loan is paid off. An owner's policy, insuring the buyer, is good as long as the owner or owner's heirs own the property.

Preliminary Report or "Commitment for Title Insurance"

The title company will search and examine the public records to investigate information surrounding title to the property. The title search is used to create a Preliminary Report provided to the lender or purchaser before closing, and reveals the following:

- Who the legal owner of the property is
- That the "estate" or degree of ownership being sold is currently and accurately vested in the seller
- Property tax status and other public or private assessments
- The presence of any unsatisfied mortgages, judgments or liens that must be satisfied before "clear title" can be conveyed
- Existing easements, restrictions, rights of way or other rights granted to others

Teamwork

The title company is involved in the real estate transaction almost from the time the purchase agreement is signed, through and beyond the closing. Working mostly behind the scenes, but always in close coordination with real estate agents, escrow officers, lenders, and legal counsel, the title company strives to carry out an important, complex procedure in an efficient and professional manner.

Lender Assistance to the Seller

A professional lender will handle your transaction with care and confidentiality. The home seller has many advantages when working with a reliable lender including:

Pre-Qualification of Prospective Buyers

Your lender can pre-qualify each potential buyer by a thorough examination of their current financial situation and credit checks. This is very important so you don't waste time negotiating with unqualified buyers.

Helping the Buyer to Find the Right Loan

The lender can shop for the loan best suited for the prospective borrower's specific needs. This gives the borrower various options for rates and terms available.

Handling the Details

The lender works closely with the borrower and the other support team members in order to make sure that the loan is approved and funded in a timely manner and your transaction closes successfully.

The Appraisal

Understanding the appraisal process can help maximize the appraised property value and avoid costly details and re-inspections. The following steps are typically followed by appraisers.

- Research the subject property as to year built, bedrooms, baths, lot size and square footage.
- Compare data of recent sales in the subject's neighborhood, typically within a one-mile radius. The appraiser usually locates at least three (and preferably more) similar homes that have sold within the past six months. These homes are considered the "Comparable Properties," or "Comps" for short.
- Field inspection is conducted in two parts: (1) the inspection of the subject property, and (2) the exterior inspection of the comparable properties.

The subject property inspection includes taking photos of the front and rear of the home (that may include portions of the yard) and photos of the street scene. The appraiser also makes an interior inspection for features and conditions which may detract from or add to the value of the home. A floor plan of the home is drawn and included while doing the inspection.

The comparable properties inspection is limited to exterior inspections. For features that cannot be seen from the street, the appraiser has reports from various sources such as Multiple Listing Services (MLS), market data services, county public records and appraisal records to help determine the condition and amenities of the comparables. The appraiser then goes through a reconciliation process with the comparable properties to determine a final estimated value.

Photographing the street scene gives the lender an idea as to the type of neighborhood in which the home is located. The photo of the front of the home gives the lender an idea of its condition and its curb appeal. Lastly, a photo of the back of the home and part of the rear yard is taken. Many homeowners do not take care of the rear portion of their home and back yards, so for this reason the rear photo is required.

An appraiser should call in advance to set up the appointment for inspection. At that time, any pertinent information about the home should be supplied, as the more that is known about the property prior to inspection, the better the appraiser can focus on researching the comparables.

Inspection & Home Warranty

What is a Home Inspection?

A home inspection is a non-invasive physical examination to identify material defects in the systems, structure and components of a building. A material defect is a condition that significantly affects the value, desirability, habitability or safety of the building.

What Systems, Structures and Components Will be Inspected?

Foundations, basements and under-floor areas, exteriors, roof coverings, attic areas and roof framing, plumbing, electrical systems, heating systems, central cooling systems, fireplaces and chimneys, and building interiors.

What to Look for in an Inspection Company

Experience, longevity, stability; reports that are professional, clear and understandable.

Is Your Home Inspector Insured?

Professional liability insurance coverage (how much), general liability (how much) and workers compensation.

How the Seller Should Prepare for a Home Inspection

The seller should have the property fully accessible, including elimination of stored objects that may prevent the inspector from accessing key components of the home. Areas of special concern are attics, crawlspaces, electric panels, closets, garages, gates/yards, furnaces and water heaters. All utilities should be on and functioning pilots lit.

Inspector's Responsibility to the Homeowner

Respect the property. Do not damage. Leave the property as they found it. Answer questions about the report after the inspection is completed. Provide a copy of the report on-site.

Moving Checklist

At Your Present Address

- Post Office: give forwarding address
- Change accounts: credit cards/subscriptions
- Notify friends and relatives

Banking & Insurance

- Transfer funds if changing banks, arrange check cashing in new location
- Obtain cashier's check if necessary for closing real estate transaction
- Arrange credit references
- Notify company of new location regarding coverage: life, health, fire and auto

Utility Companies

- Gas, electricity, water, telephone, fuel, cable
- Get refunds on any deposits made

Medical, Dental, Prescription Histories

- Ask doctor/dentist for referrals: transfer prescriptions, eyeglasses, x-rays
- Obtain birth records, medical records, etc.

Schools, Church, Club, Civic Organizations

- Transfer memberships: get letters of introduction
- Pre-register children in new schools

Pets

- Ask about pet regulations for licenses, vaccinations, tags, etc.
- Plan for transporting pets

Don't Forget

- Empty refrigerator; defrost freezer; place charcoal to dispel odors
- Have appliances serviced for moving
- Clean rugs before moving and wrap them
- Check with your moving counselor regarding insurance coverage

At Your Future Address

- Check on service of phone, gas, electricity and water
- Check pilot light on stove, hot water heater, incinerator and furnace
- Have appliances checked
- Ask your mailman for mail he may be holding for your arrival
- Have your new address recorded on your driver's license; apply for a new license
- Visit city offices and register for voting
- Register your car promptly after arrival in a new state or a penalty may apply

Home Buyer's Glossary of Terms

Adjustable Rate Mortgage (ARM):
A mortgage loan under which the interest rate is periodically adjusted to more closely coincide with the current rates. The amounts and times of adjustments are agreed to at the inception of the loan. (Compare to fixed rate loans.)

Adjustment Period: The length of time between interest rate changes on an ARM. For example, a loan with an adjustment period of one year is called a one year ARM, which means that the interest rate can change once a year.

Amortization: Repayment of a loan in equal installments comprised of principal and interest, rather than interest only.

Annual Percentage Rate (APR): The total finance charge (interest, loan fees, points expressed as percentage of the loan amount). The APR is disclosed as a requirement of the federal Truth in Lending statutes.

"As-Is Condition": Premises accepted by a buyer in the condition existing at the time of the sale, including all physical defects.

Assumption of Mortgage: A buyer's agreement to assume the liability under an existing note that is secured by a mortgage or deed of trust. The lender must approve the buyer in order to assume the loan.

Buydown: A payment to the lender from the seller, buyer, third party or some combination of these, causing the lender to reduce the interest rate during the early years of a loan. The buydown is usually for the first 1 to 5 years of the loan.

CAP: The limit of how much an interest rate or monthly payment can change, either at each adjustment or over the life of the mortgage.

CC&R's: Covenants, Conditions and Restrictions. A document that controls the use, requirements and restrictions of a property.

Closing Costs: Expenses incidental to the sale of real estate, such as loan fees, title fees, appraisal fees, etc.

Closing Statement: The financial disclosure statement that accounts for all of the funds received and expected at the closing, including deposits for taxes, hazard insurance and mortgage insurance. The form used for the closing statement is the HUD 1.

CLTA New Homeowner's Policy: A widely used title insurance policy that offers the most extensive title insurance coverage available for homeowners. Special conditions and deductibles apply. Ask your Lawyers Title professional for more information.

Contingency Clause: The dependence upon a stated event which must occur before a contract is binding. For example: The sale of a house, contingent upon the buyer obtaining financing.

Conversion Provision: A provision in some ARM's to convert the loan to a fixed rate loan, usually after an adjustment period. The new fixed rate is generally set at the prevailing interest rate for fixed rate mortgages. This conversion feature may be at an extra cost.

Deed: Written instrument which, when properly executed and delivered, conveys title.

Due on Sale Clause: An acceleration clause that requires full payment of a mortgage or deed of trust when the secured property changes ownership.

Earnest Money: The portion of the down payment delivered to the seller or escrow agent by the buyer, with a written offer as evidence of good faith.

Escrow: A procedure in which a third party acts as a stakeholder for both the buyer and the seller, carrying out both party's instructions and assuming responsibility for handling all of the paperwork and distribution of funds.

Fair Market Value: Price that probably would be negotiated between a willing seller and willing buyer in a reasonable time. Usually arrived at by using comparable sales in the area.

Federal National Mortgage Association (FNMA): Popularly known as Fannie Mae. A privately owned corporation created by Congress to support the secondary mortgage market. It purchases and sells residential mortgages insured by the FHA or guaranteed by the VA as well as conventional home mortgages.

Home Buyer's Glossary of Terms (cont.)

FHA Loan: A loan issued by the Department of Housing and Urban Development. The Federal Housing Administration (FHA) guarantees its payment in event of default by the owner.

Finance Charge: The total cost a borrower must pay, directly or indirectly, to obtain credit according to Regulation Z of the Truth in Lending law.

Flood Insurance: Insurance indemnifying against loss by flood damage. Required by lenders in areas federally designated as potential flood areas. The insurance is private but is federally subsidized.

Graduated Payment Mortgage: A residential mortgage with monthly payments that start at a low level and increase at a predetermined rate.

Grant Deed: One of the many types of deeds used to transfer real property. Contains warranties against prior conveyances or encumbrances. When title insurance is purchased, warranties in a deed are of little practical significance.

Grantee: One to whom a grant is made. Generally the buyer.

Grantor: One who grants property or property rights.

Hazard Insurance: Real estate insurance protecting against loss caused by fire, some natural causes, vandalism, etc., depending upon the terms of the policy.

Home Inspection Report: A qualified inspector's report on a property's overall condition. The report usually includes an evaluation of both the structural and mechanical systems.

Home Owner's Association:

1) An association of people who own homes in a given area, formed for the purpose of improving or maintaining the quality of the area.
2) An association formed by the builder of condominiums or planned developments and required by statute in some states. The builder's participation as well as the duties of the association are controlled by statute.

Home Warranty Plan: Protection against failure of mechanical systems with the property. Frequently includes plumbing, electrical, heating systems and installed appliances.

Homestead: The dwelling (house and contiguous land) of the head of a family. Some states grant statutory exemptions, protecting homestead property (usually to a set maximum amount) against the rights of creditors. Property tax exemptions (for all or part of the tax) are also available in some states. Statutory requirements to establish a homestead may include a formal declaration to be recorded.

HUD 1: The form used for the closing statement. *(See Closing Statement.)*

Impound Account: Account held by a lender for payment of taxes, insurance, or other periodic debts against real property. For example, the mortgagor or trustor pays a portion of the yearly taxes with each monthly payment. The lender pays the tax bill from the accumulated funds.

Index: A measure of interest rate changes used to determine changes in an Adjustable Rate Mortgage interest rate over the term of the loan.

Joint Tenancy: An equally undivided ownership of property by two or more persons. Upon death of any owner, the survivors take the decedent's interest on the property. *(See chart on page 10.)*

Lien: A legal hold or claim on property as security for a debt or charge.

Loan Commitment: A written promise to make a loan for a specified amount on specific terms.

Loan-To-Value Ratio: The relationship between the amount of the appraised value of the property and the amount of the loan, expressed as a percentage.

Lock or Lock-in: A lender's guarantee of an interest rate for a set period of time.

Margin: The number of percentage points the lender adds to the index rate to calculate the ARM interest rate at each adjustment.

Negative Amortization: Negative amortization occurs when the monthly payments fail to cover the interest cost. The interest that isn't covered is added to the unpaid principal balance, which means that even after several payments you could owe more than you did at the beginning of the loan.

Home Buyer's Glossary of Terms (cont.)

Negative amortization can occur when an ARM has a payment cap that results in monthly payments that aren't high enough to cover the interest.

Origination Fee: A fee or charge for establishing a new loan.

Owner's Policy: Title insurance for the owner of property, rather than a lienholder.

PI: Principal and interest. Used to indicate what is included in a monthly payment on real property. If the payment includes only principal and interest, property taxes and hazard insurance would make the total payment higher. *(See PITI.)*

PITI: Principal, interest, taxes and insurance. Used to indicate what is included in a monthly payment on real property. Principal, interest, taxes and insurance are the four major portions of a usual monthly payment.

Point: An amount equal to 1% of the principal amount of the investment or note. When referring to mortgages or deeds of trust, the term is used to describe the percentage of discount rather than interest.

Preliminary Title Report: A report showing the condition of title before a sale or loan transaction. After completion of the transaction, a title insurance policy is issued.

Pre-payment Penalty: A fee charged to a borrower who repays a loan before it is due.

Private Mortgage Insurance (PMI): Insurance written by a private company protecting the lender against loss if the borrower defaults on the loan.

Purchase Agreement: A written document in which the purchaser agrees to buy certain real estate and the seller agrees to sell under stated terms and conditions. Also called a Sales Contract, Deposit Receipt, Earnest Money Contract or Agreement for Sale.

Realtor: A real estate broker or associate active in a local real estate board affiliated with the National Association of Realtors.

Regulation Z: Federal Reserve regulation issued under the Truth in Lending Law, which requires that a credit purchaser be advised in writing of all costs connected with the credit portion of the purchase.

Sole Ownership: Ownership of property by an individual or other entity capable of acquiring title.

Statement of Information: A confidential form filled out by buyer and seller to help a title company determine if any liens are recorded against either. Also called a Statement of Identity.

Tax Rate: Traditionally, the ratio of dollars of tax per one hundred or per one thousand dollars of valuation. Modernly, expressed as a percentage of valuation.

Tenancy in Common: A type of joint ownership of property by two or more persons with no right of survivorship.

Title Insurance Policy: A policy that protects the purchaser, lender or other party against losses. Title insurance offers protection against claims arising from various defects (as set out in the policy) which may exist in the title to a specific parcel of land. Lawyers Title routinely issues two types of policies. An "owner's" policy, which insures the home buyer for as long as they own the property, and a "lender's" policy, which insures the lender's security interest over the claims that others may have in the property. For more information on title insurance, please contact your Lawyers Title professional.

VA Loan: A loan that is guaranteed by the Veteran's Administration and made by a private lender.