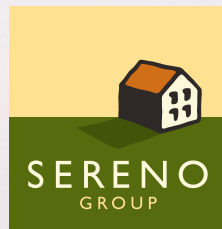


SERENO GROUP

# HOME BUYER'S GUIDE





# THE SERENO STORY

Sereno Group places hyperlocal focus on the Silicon Valley and Santa Cruz Coastal communities we serve. Living, working and contributing to our local spheres creates unparalleled expertise and a competitive advantage. We use this community intelligence to benefit each and every one of our clients.

It is no small wonder that the communities of Silicon Valley are highly desirable locations to settle, plant roots and create a home. This hive of creative energy and world-changing business pursuits, set amidst the beauty of rolling hills and forests with easy access to everything the Bay Area has to offer, is a lifestyle like no other.

Likewise, the Santa Cruz Coastal communities have become highly coveted neighborhoods to live, work, and play. Ranked Number 8 in the top 100 best places to live, Santa Cruz offers the rare and cherished opportunity to surf on world-class waves in the morning, head to work for the day, and then hike through ancient redwood forests in the late afternoon.

Alongside the desirability of the areas we serve are very unique market conditions that require a highly skilled professional with hyperlocal expertise, boots on the ground experience and negotiating finesse.

In the hands of your Sereno Group agent, you have a trusted guide to advise your every move through the intricacies of the search, uncovering the best home and structuring a deal that will best serve your budget and lifestyle.

We hope this guide will serve to empower you as you navigate the process of buying your home with real estate intelligence, industry jargon and useful information about every step of the journey.

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To make your home buying process easier, we recommend thoughtful consideration of these points before you begin the search:

*What is your ideal price range?*

*What type of property suits you best - Single Family Home, Condo, Townhome?*

*Where are your preferred neighborhoods?*

*If you have children, what amenities are important to you?*

*Do you have pets that need consideration?*

*Will proximity to a school, or schools, be a factor?*

*Will you be relying on public transport?*

*What are your "Non-Negotiable," absolute must-haves? (i.e., large yard, walk to town, pool)*







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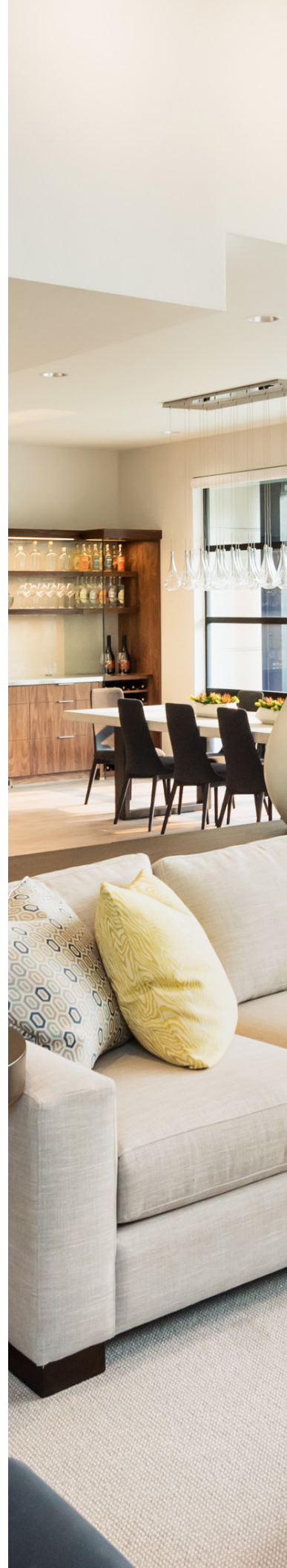
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A modern living room with large floor-to-ceiling windows overlooking a blue ocean. The room features white armchairs, a white sectional sofa, and a white coffee table with a black geometric design. A large, multi-tiered crystal chandelier hangs from the ceiling. A green semi-transparent banner is overlaid on the right side of the image, containing the text "PART ONE" and "FUNDAMENTALS OF FINANCING YOUR HOME".

# PART ONE

FUNDAMENTALS OF FINANCING YOUR HOME

# THE HOME LOAN FLOWCHART





# THE IMPORTANCE OF PRE-APPROVAL

Pre-Approval is a sign of readiness and provides buying leverage if you find a home you want and there are other buyers in line. “Pre-Qualification” is essentially an opinion letter from a bank, while “Pre-Approved” means the loan is set to go.

Knowing the approved loan amount up front will amplify your buying power and simplify your home search.

## **Determine Your Price Range**

Pre-approval will determine your purchasing power. Your lender can share the types of financing available and what you qualify for with each type (i.e. fixed or adjustable rate loans).

## **Understand Your Monthly Payments**

Before landing on a price range, it is important for you to ensure your comfort level with your monthly payment which includes Principal, Taxes, Interest, Insurance, and possibly Mortgage Insurance, if applicable.

## **Pre-Approval Makes You A “Cash Competitive” Buyer**

When considering offers, sellers have a vested interest in how their potential buyer intends to purchase their home. Pre-approval positions you as serious, willing and able to complete the deal. If there are multiple offers, a buyer must put themselves in the best possible light in order to have their offer shine through. Pre-Approval is the *proactive* way to make this happen.

*Notes, Insights & Observations:*

# THINGS TO AVOID DURING THE LOAN PROCESS

We recommend you make every effort to avoid these actions at the risk of slowing down the process of financing your new home.

Best NOT To:



## **Buy or lease a new automobile.**

This is a good time to be mindful of anything that may affect your debt-to-income ratio. New payments, particularly large ones, may detrimentally impact your ability to obtain a loan.



## **Run a credit report on yourself (or your spouse, if applicable).**

All inquiries must be explained in writing so it is advisable to avoid doing at this time.



## **Consolidate your bills prior to meeting with your lender.**

Speak to your lender first about any financial maneuvering to avoid delaying your loan approval.



## **Make major purchases, such as appliances or furniture.**

Purchasing anything at this time can potentially increase your debt and reduce your chance for an optimal loan.



## **Move your financial assets around.**

During this process, everything on your financial dashboard will be examined carefully. You must disclose and document everything you do so it is highly recommended that you keep your accounts free and clear of complications.



## **Pack or ship important loan documents.**

We recommend that you keep a file on hand with important documents like W-2 forms, Tax Returns, Divorce Decrees, and any other supporting information. It is wise to be prepared with these items right up to the close of escrow.



## **Change employment.**

The probationary period that often comes with new employment can jeopardize your ability to qualify for a loan.

*Notes, Insights & Observations:*



# LOAN REVIEW ELEMENTS EXPLAINED

## Credit

Your credit score is the mathematical calculation of your overall credit rating. This is the moment when a good payment history comes front and center, and any derogatory credit notations need to be explained with a very good reason.

Any outstanding collection accounts, judgments or liens will be paid through escrow.

## Job Stability

Consistency is a beautiful thing when applying for a loan. The same job with the same company for a long time is ideal but of course, life throws curveballs. Change for the sake of advancement is acceptable. Schooling in preparation for your vocation is meritable on your employment path.

## Down Payment, Closing Costs + Cash Reserves

You will be required to provide a minimum of 3% towards the down payment from your own funding. For funds to be considered, they MUST be verified as having been yours for 3 months. The remainder of the down payment, closing costs and 2-3 months of reserves may be gifted by a relative who provides a letter and bank statement showing ability and proof of funds.

## Income and Ratios

Your gross monthly income, before taxes, is computed.

Bonuses, over-time, part-time or self-employment income are averaged over the last two years.

Principal, Interest, Taxes, and Insurance ( = PITI) on the loan are divided by the gross monthly income to get the "Top" ratio.

Ideally, ratios are below 33 for the top ratio, and below 38 for the bottom ratio for an 80% loan. These can be lower for 90%, 95% or 97% LTV loans.

If other components weigh strongly, higher ratios may be permitted and are often available in our local marketplace.

## Property

The subject property is considered security for the loan. To ensure sufficient collateral, the lender will require proof in the form of an appraisal from a Certified Fee Appraiser. An underwriter reviews the appraisal for verification of marketability, condition, and value. The lender also requires a Title Report and Insurance on the property to protect both you and them.

*Notes, Insights & Observations:*

# WHAT IS THE LOAN QUALIFICATION PROCESS?

## SINGLE FAMILY HOME

For Example:

<b>INCOME</b> \$300,000	<b>ASSETS + 12 MONTHS RESERVES</b> \$450,000	<b>OTHER DEBT</b> \$800/MO	<b>CREDIT/ FICO SCORE</b> 720	<b>TOP RATIO</b> 30.6%	<b>BOTTOM DEBT RATIO</b> 33.8%
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Using these figures, proposed monthly housing expenses would be:

Purchase Price .....	\$1,500,000
Loan Amount .....	\$1,200,000 (80% LTV)
Down Payment .....	\$300,000

30 year fixed Payment @ 4.5% .....	\$6,080.22
Insurance due per month .....	\$187.50
Taxes due per month .....	\$1,375

<b>TOTAL MONTHLY PITI</b> .....	<b>\$7,642.72</b>
<b>TOTAL DEBT SERVICE</b> .....	<b>\$8,442.72</b>

Top Ratio = 30.6%  
Bottom Ratio = 33.8%

## NOTES

<b>P.I.T.I</b>  Principal, Interest, Taxes + Insurance	<b>INSURANCE</b>  Homeowner's Insurance, Mortgage Insurance, Homeowner Dues	<b>PROPERTY TAX FORMULA</b>  $\left[ \begin{array}{c} \text{Purchase Price} \\ \times \\ \text{Tax rate (1.10\%)} \\ = \\ \text{Annual Property Taxes} \end{array} \right]$ $\left[ \begin{array}{c} \text{Annual Property Taxes} \\ \hline 12 \text{ months} \\ = \\ \text{Monthly Tax Rate} \end{array} \right]$	<b>HOMEOWNER'S INSURANCE FORMULA</b>  $\left[ \begin{array}{c} \text{Loan Amount} \\ \times \\ 0.15\% \\ = \\ \text{Annual HO's Insurance} \end{array} \right]$ $\left[ \begin{array}{c} \text{Annual HO's Insurance} \\ \hline 12 \text{ months} \\ = \\ \text{Monthly Rate} \end{array} \right]$
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# WHAT IS THE LOAN QUALIFICATION PROCESS?

## CONDO OR TOWNHOME

For Example:

<b>INCOME</b> \$120,000	<b>ASSETS + 12 MONTHS RESERVES</b> \$50,000	<b>OTHER DEBT</b> \$800/MO	<b>CREDIT/ FICO SCORE</b> 680	<b>TOP RATIO</b> 40.0%	<b>BOTTOM DEBT RATIO</b> 48.9%
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Using these figures, proposed monthly housing expenses would be:

Purchase Price .....	\$650,000
Loan Amount .....	\$585,000 (90% LTV)
Down Payment .....	\$65,000 (\$25,000 Buyer / \$40,000 Gift)

30 year fixed Payment @ 4.5% .....	\$2,964.10
HOA & Insurance due per month .....	\$450.00
Taxes due per month .....	\$595.83

TOTAL MONTHLY PITI .....	\$4,009.93
TOTAL DEBT SERVICE .....	\$4,889.93

Top Ratio = 40.0%  
Bottom Ratio = 48.9%

*These ratios may exceed traditional guidelines and may require lender exceptions.*

## NOTES

<b>P.I.T.I</b>  Principal, Interest, Taxes + Insurance	<b>INSURANCE</b>  Homeowner's Insurance, Mortgage Insurance, Homeowner Dues	<b>PROPERTY TAX FORMULA</b>  $\left[ \begin{array}{c} \text{Purchase Price} \\ \times \\ \text{Tax rate (1.10\%)} \\ = \\ \text{Annual Property Taxes} \end{array} \right]$  $\left[ \begin{array}{c} \text{Annual Property Taxes} \\ \hline 12 \text{ months} \\ = \\ \text{Monthly Tax Rate} \end{array} \right]$	<b>HOMEOWNER'S INSURANCE FORMULA</b>  $\left[ \begin{array}{c} \text{Loan Amount} \\ \times \\ 0.15\% \\ = \\ \text{Annual HO's Insurance} \end{array} \right]$  $\left[ \begin{array}{c} \text{Annual HO's Insurance} \\ \hline 12 \text{ months} \\ = \\ \text{Monthly Rate} \end{array} \right]$
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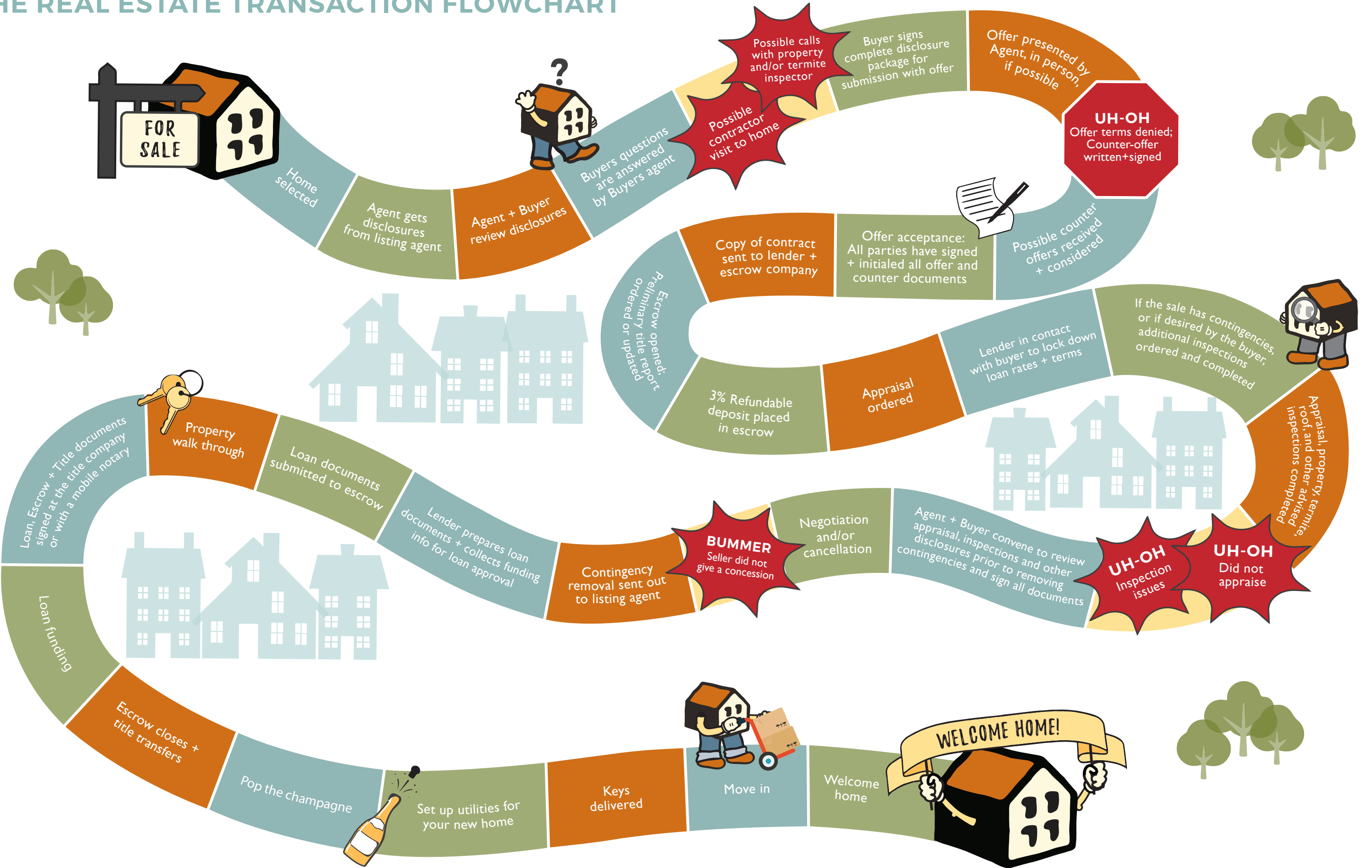
# PART TWO

THE BUYING PROCESS





THE REAL ESTATE TRANSACTION FLOWCHART



# WHAT ARE DISCLOSURES?

If you are serious about a particular property, you can request a disclosure package from the listing agent. These disclosures are your opportunity to review general information regarding the property prior to writing an offer.

Both the seller and listing agent are required to disclose all material facts they know about the property so you are aware of anything that might affect your decision to buy the home.

## GENERAL DISCLOSURES

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- » **Real Estate Transfer Disclosure Statement (TDS)**  
Questionnaire completed by the Seller about the property.
- » **Preliminary Title Report**  
Provided by the Title Company, this report shows ownership of the parcel, as well as any liens and encumbrances thereon which will not be covered under a subsequent title insurance policy.
- » **Property Inspection Report**  
This report examines the overall functionality and condition of the home including appliances, mechanical, plumbing, and electrical systems.
- » **Pest Inspection Report**  
This report examines structural damage due to wood boring beetles, termites, and dry rot.
- » **Agent's Visual Inspection Disclosure (AVID)**  
It is required for both the listing and selling agents to complete a visual inspection of the property.
- » **Natural Hazard Zone Disclosure (Property ID or JCP Report)**  
This report details how the property might be affected by natural hazards like an Earthquake, Wildfire, Tsunami or Flood based on its specific location.

## HOA PROPERTIES

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- » **Conditions, Covenants, and Restrictions (CC&Rs)**
- » **Homeowners Meeting Association (HOA) Meeting Minutes**  
For the last 12 months.
- » **HOA Budget and Budget Reserve Study**
- » **Condominium Certification Form**
- » **House Rules + Miscellaneous Communication**

# THE OFFER PROCESS

## What constitutes a “good” offer?

An offer to buy depends on many factors, including market conditions, the neighborhood, your needs, the seller's needs, and the list price. Things to consider: is the list price too high or low; is your offer the only one; and are similar properties in the area selling above or below asking price?

Your agent will provide you with the best information to help you make an informed decision.

## What does “As Is” Mean?

Buying a property “As Is” means that you as the Buyer are purchasing the property in its present condition however you do have the right to inspect the property and the Seller is legally obligated to disclose any and all known material defects. If your offer contains contingencies, and defects are found that were not previously disclosed, you have the right to cancel the contract or negotiate specific repairs or cash in lieu of repairs. The California Association of REALTORS® contract is an “As-Is” contract by default, whereas the PRDS purchase contract leaves it to negotiation.

## Should I provide anything personal with my offer?

A letter with your story, reasons why you love the house and true intention to close the deal can be helpful if there are multiple offers on the table. This act can elevate your position and indicates to the seller that you are genuine and have the ability to perform.

## How long before I know if the Seller has accepted my offer?

It is customary to allow 24 hours for a seller to notify you of their response.

## Multiple bids - How do you win the deal?

It is important to understand the motivation and goals of the seller. Every offer is unique and offers different benefits depending on how price and terms are structured. Your agent can help determine how to position your offer in a way that will appeal to the seller's motivations.

## What is a Counter-Offer?

A seller has four choices when you submit an offer to purchase:

1. **ACCEPT** as written. If they do this, you are “in contract” to buy the property.
2. **REJECT** the offer.
3. Offer you a **BACK-UP** position behind an accepted offer which will put you in first place if the offer falls through or cancels.
4. **COUNTER** your offer with a revised purchase price, length of escrow, contingency period or other terms. Once you receive this, you can then **ACCEPT**, **REJECT** or **COUNTER** the counter. This can go on until both parties come to an agreement.

## What is a Multiple Counter-Offer?

The seller can counter all offers they receive or a select few, and they have the final say. Should you respond to this scenario with a counter to their counter, you are in contract only if they accept your offer.



# CONTINGENCIES OR NO CONTINGENCIES

## Financing Contingency

If you enter into the purchase contract contingent upon obtaining written lender commitments for your loan amount, and the lender commitment cannot be obtained, you have the right to cancel the contract.

**Please note**, your right to exercise the Financing Contingency to cancel is dependent upon you making a timely, good faith application for the actual loan specified. You should not remove the Financing Contingency without first personally verifying all of the terms and conditions of the loan directly with your lender.

## Inspection/Investigation Contingency

The contract is contingent upon the Buyer's approval of all conditions, disclosures, factors and circumstances relating to the Property and any other matter, on or off-site, that materially affects the value and/or desirability of the Property including, but not limited to, any and all matters contained in written disclosures and advisories.

The scope of the Property Condition Contingency includes Buyer's approval of the Property Disclosure Documents and Compliance Statements and cost and/or availability of Homeowner's Insurance Coverage (i.e., fire and liability).

## Appraisal

This applies if the Purchase Contract is contingent upon you as the Buyer obtaining an appraisal of the Property at or above the Purchase Price, whether or not you are actually seeking a loan or receiving a lender's written commitment for the financing of the purchase.

In exercising this contingency, you as the Buyer shall rely upon an appraisal from an independent licensed or certified appraiser.

## A Note on Inspections

The seller is obligated to make the Property reasonably available for all Buyer related inspections and investigations. Inspections are advised and the Buyer's failure to fully conduct inspections and investigations is against the advice of your real estate agent. A Buyer assumes all risk of any decision not to conduct any and all inspections.

During the time between Acceptance and Close of Escrow, the Seller is obligated to maintain the Property, including landscaping and all items included in the contract, so they are in the same general condition as at the time of acceptance.

*Notes, Insights & Observations:*

# NEGOTIATION 101

There's an old saying that states, "Everything is negotiable." This is particularly true in real estate and why having an agent acting on your behalf when it comes time to negotiate the deal is so important.

Sereno Group agents are well versed in the art of negotiation, from doing necessary research to unearth the best strategy, exploring common objectives before exploring differences and, most importantly, defining your ideal outcome and the steps it will take to move both parties towards this outcome.

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“Don't bargain yourself down  
before you get to the table.”  
- CAROL FROHLINGER

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Deals can often fall apart over the smallest, and seemingly inconsequential, details. Having the negotiation intelligence of an experienced agent can be an essential element to preventing a deal break down.

Your agent will take many elements into account as part of the negotiation strategy:

- » What personalities are involved?
- » Who is the decision maker?
- » What are the non-negotiable points?
- » In which areas is it likely that concessions might be possible?
- » What are the true costs of repairs, and can we get estimates quickly using agent network and save time in negotiations?
- » What would be a win-win situation for both sides?
- » What has happened so far that we can use to our advantage?

*Notes, Insights & Observations:*

# CAN YOU CANCEL YOUR OFFER?

If you as the Buyer determine, in good faith, that any conditions or circumstances relating to contract contingencies are unacceptable, then you are permitted to cancel within the prescribed time frames or prior to the expiration of a Notice to Perform by delivery of written Notice of Cancellation to the Seller. Buyer is entitled to a refund of deposited monies, less any non-reimbursable fees and costs.

*Please note, if the Seller unreasonably refuses to cooperate in the release of Buyer deposited funds, Seller may be exposed to monetary sanctions and attorneys fees per Civil Code Section 1057.3.*

Likewise, if the Seller determines, in good faith, that any conditions or circumstances relating to the sellers contingencies in the contract are unacceptable, the seller is entitled to cancel the contract with the prescribed time frame and prior to the Notice to Perform.

A written Notice of Cancellation to Buyer must be supplied and any deposited funds are subject to refund, less any non-reimbursable fees and costs.

*Notes, Insights & Observations:*



# ESCROW EXPLAINED

## What is Escrow?

Escrow is the time period between your offer being accepted and close of escrow. Escrow amounts to a deposit of funds, deed or another instrument by one party for delivery to another party upon completion of a particular condition or event.

## How does it work?

Escrow instructions are created, signed and delivered to the escrow officer when the principals to a transaction - the buyer, the seller, the lender, and agents - open escrow. The escrow officer is charged with processing the escrow in accordance with the instructions and ensuring all necessary documents are completed and signed. Once this is achieved, the escrow will be closed.

An escrow officer cannot take instructions from one party in the transaction. All parties must be in agreement.

Typical duties include:

1. Ensuring instructions laid out by the principals and parties to the transaction are executed in a timely manner
2. Paying any bills specified in the instructions.
3. Responding to requests from parties to the transaction.
4. Handling any funds or documents as directed in the instructions.
5. Closing escrow **ONLY** when all the terms have been satisfied.
6. Providing final accounting details with the Closing or Settlement Statement.

## Why do I need Escrow?

It is important that no funds or property change hands until the instructions in the transaction have been followed and completed. This is for the protection of the buyer, seller, lender, and borrower. The escrow holder is obligated to safeguard the funds and documents while in their possession and disperse funds and convey title **ONLY** when all provisions of the escrow have been satisfied.

The escrow officer is a third and entirely neutral party and does not represent the interests of anyone in the transaction.

## How long is Escrow?

The length is written into the offer and varies. Typically, escrow is 30-45 days however it can be much shorter in all-cash deals.

## Who chooses where Escrow is opened?

The selection of the escrow holder is typically done by agreement between the principals. Laws prohibit the payment of referral fees to escrow officers to ensure unbiased and professional services for both parties.

# THE ESCROW FLOW CHART

Think of escrow as a neutral zone, like Switzerland. Funds are held by the Escrow company so that both parties have time to comply with the terms of the contract and the transfer of title can be prepared.

**Several things need to be accomplished during a typical escrow:**



A refundable deposit (usually 3% of the purchase price) is placed and held by the escrow company.



Your lender prepares your loan documents and collects necessary information for approval.



Review and sign disclosures.



Any inspections mandated in the offer are performed.



Property appraisal completed by the lender.



All loan and title documents are signed by you when complete.



Due diligence performed by you. Remove contingencies to meet deadlines.



Escrow closes and the property transfers when all conditions have been satisfied.

# AFTER THE CLOSE

At Sereno Group, we believe the purchase of your home does not end with close of escrow. It is our great privilege to assist in the search and purchase of the right home and we hope to continue being of service as you settle in and become a part of the community.

There can be a seemingly endless list of projects that go hand in hand with a new home. Your agent is your best resource and local point of contact to ensure all your needs are met so your home becomes your oasis.

- » Cleaning Services, interior and exterior
- » Handyman
- » Contractor
- » Landscaping
- » Interior Design
- » Solar Energy Resources
- » Plumber
- » Windows
- » Electrician
- » Carpenter

Other areas your agent might be of assistance:

- » Refinancing
- » Remodeling consultation to maximize your return on investment
- » How to buy investment properties
- » Assisting family members purchase or sell properties, even outside the area

Please reach out to make the transition easier and:

- » Discover local resources
- » Connect to important community information
- » Find necessary comforts to make you feel at home

*Thank you for choosing Sereno Group!*





*Notes, Insights & Observations*







**[WWW.SERENOGROUP.COM](http://WWW.SERENOGROUP.COM)**

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