



## Step 5:

# Making an Offer on a Home

Once you decide to purchase a home, the next step is to put in an offer. Your real estate agent will be by your side through all this and will be the one who contacts the seller's agent to submit the offer. Many times, your offer will include earnest money. This money will eventually be applied toward your down payment if the seller accepts your offer. Then, a home inspection and appraisal will occur. These steps may sound overwhelming, but we'll break down the process.

### This step covers:

- Submitting the offer
- After the offer
- Home inspection
- Home appraisal



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# Submitting the offer

## You'll learn:

What to consider when making an offer on a home  
How your agent can help you determine the offer amount  
Steps in the offer process

At this time, you'll decide how much you are willing to pay for the home you want to buy. In some instances, you may want to put in an offer at a lower amount than the asking price. In other instances, you may need to offer more, depending on the demand for housing in your area. Your real estate agent's expertise will help you make the best decisions. Here's what goes into putting in an offer on a home.

## How your real estate agent helps

As you make your offer, your real estate agent will help you determine an amount, but in the end, the decision of how much to offer is all yours. Your agent will show you the prices of homes sold within the area and how high the demand is for them. If demand is very high and multiple buyers show interest in the same home, your agent may suggest that you write a letter to the seller explaining why you love the home. They may also suggest being flexible with the process, such as the **closing date**.

## What to consider

First, make sure the **home purchase price** is within your budget, even if you submit an offer for less. The seller could either counteroffer or stand firm on the listed price. On the other hand, don't assume you have to offer your **pre-approved** or **pre-qualified** amount. You can offer less. If you expect to make any renovations to update the home, you will want to factor in those future costs when you put in your home purchase offer. Do the windows need to be replaced? Is the HVAC system outdated? Does the house need a new roof? These are all things to consider. Also, make sure to avoid offers that are too low. It could cause you to lose the home you want. You'll also need to consider if your offer is contingent. That refers to other needs and conditions that must occur for you to move forward with the purchase of the home. This could include results from the home inspection, the **appraisal**, or your home loan getting approved.

### Closing Date:

In real estate, the delivery of a deed, financial adjustments, the signing of notes, and the disbursement of funds necessary to consummate a sale or loan transaction.

### Home Purchase Price:

The final selling price of a home.

### Pre-approval:

Pre-approval is a bigger step than pre-qualification, but it is a better commitment from the lender. This involves completing a mortgage application and providing the lender with your income documentation and personal records. If you qualify for a mortgage, the lender will be able to provide the amount of financing and the potential interest rate (you might even be able to lock in the rate). You'll be able to see an estimate of your monthly payment (before taxes and insurance because you haven't found a property yet).

If you expect to make any renovations to update the home, you will want to factor in those future costs when you put in your home purchase offer.

## Presenting the offer

### Offer process

- 1 Sales contract**

Your real estate agent will prepare a sales contract that details the terms of the offer and present it to the selling agent. Your agent will talk to the selling agent who will then discuss the offer with the seller.
- 2 Offer terms**

The seller will go through the terms of your offer and the price to determine if they accept, decline, or want to negotiate.
- 3 Negotiation**

If they choose to negotiate, the seller will need to decide the price and terms they want, and their agent will tell your agent.
- Repeat until agreement**

This process repeats itself until both you and the seller come to an agreement. The offer is not binding until all parties sign it and it's delivered to you, the buyer. Then, it becomes a ratified sales contract.

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#### Pre-qualification:

With pre-qualification the lender provides the mortgage amount for which you may qualify. Pre-qualifying can help you have an idea of your financing amount (and the process is usually quick and free), but you won't know if you actually qualify for a mortgage until you get pre-approved.

#### Home Appraisal:

A written estimate or opinion of a property's value prepared by a qualified appraiser.

## After the offer

You'll learn:

What a ratified sales contract is

The documents your lender may need to complete your mortgage

How your interest rate affects your overall costs

Congratulations! At this point, the seller accepted your offer and you have a ratified sales contract. Soon, it will be time to celebrate, but you need to complete a few important items before the home is yours. Now, it's time to start putting some of that hard-earned money that you saved to work and take the next steps to obtain a **mortgage**.

## Earnest money

An **earnest money** deposit is a sum of money that a buyer provides along with the offer to show how serious they are about buying the house. When multiple buyers make an offer on a home, sellers sometimes will go with the offer that has a higher deposit because they perceive these buyers to be very serious about buying the home. Typically, earnest money deposits are between 1% and 3% of the price of the home. They are held in an **escrow account** and then either applied toward the **closing costs** or your **down payment** at closing. Earnest money deposits are usually made through a personal check to the real estate agent or **title company**. If you back out of the sale, you may lose this deposit, depending on the terms in your sales contract.

**When multiple buyers make an offer on a home, sellers sometimes will go with the offer that has a higher deposit because they perceive these buyers to be very serious about buying the home.**

## Ratified sales contract

One of the conditions of getting your mortgage is to send your **lender** a ratified sales contract, which is a legally binding contract from both you and the seller. It should include a **closing date**—the date at which you and the seller will execute all documents needed to transfer ownership. Your lender will then start working toward that date to provide the money you need to purchase the home.

## Necessary documents for the home purchase

Now that everything is moving toward the home purchase, you will need to focus on working with a lender to get your mortgage. Here are some examples of the types of documents you can expect your lender to request.

### Mortgage:

A legal document that pledges property to the mortgage company as security for the repayment of the loan. The term is also used to refer to the loan itself.

### Earnest Money:

You typically will need to pay what's called "earnest money" which shows the seller you are serious about buying the home. Think of earnest money as a deposit you are providing the seller (usually around \$500 - \$1,000 or a certain percentage of the offer price) that will be applied to the purchase once the contract is finalized.

### Escrow Account:

The actual account where the escrow funds are held in trust.

### Closing Costs:

Various fees required to conclude a real estate transaction.

### Down Payment:

The amount of cash a borrower may need to pay in order to buy a piece of property; equal to the purchase price minus the amount of any mortgage loans used to finance the purchase.

### Title Company:

An agency that works with all parties involved in a real estate transaction to research and insure the title of the home you're buying, facilitate the loan closing, and ensure that the transfer of ownership is completed and recorded properly.

### Lender:

An organization or person that lends money with the expectation that it will be repaid, generally with interest.

<p><b>Proof of income</b></p>	<p>Pay stubs W2s Tax returns 1099s Social Security award Child support/alimony documentation</p>
<p><b>Asset statements</b></p>	<p>Bank statement Certificates of deposit Bonds Retirement accounts Business accounts Investment accounts</p>
<p><b>Other documents</b></p>	<p>Photo ID Divorce papers, if applicable Bankruptcy documents Proof of rent payments/copy of lease Gift letter if using gift funds Social Security card, ITIN or other similar documents Business license, if self-employed Copy of ratified sales contract</p>

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**Closing Date:**

In real estate, the delivery of a deed, financial adjustments, the signing of notes, and the disbursement of funds necessary to consummate a sale or loan transaction.

Download a checklist of documents needed [here](#).

**Interest rate lock**

The **interest rate** on your mortgage could cost or save you thousands of dollars, depending on the current rate. That’s why it’s important to talk to your lender so you can lock in the interest rate on your mortgage right away, which is usually a good option in order to avoid the uncertainty of rates going up and costing you more. Delays in closing beyond the mortgage lock-in period could cause your rate to go up.

**Interest Rate:**

A percentage of a sum borrowed that is charged by a lender or merchant for letting you use its money. A bank or credit union may also pay you an interest rate if you deposit money in certain types of accounts.

# Home inspection

## You'll learn:

**Why a home inspection is a prudent step**

**The types of problems your home inspector will and won't look for**

**How to handle issues that show up in your inspection report**

A home inspection is a great way to discover the true health of the home you want to purchase. It can provide peace of mind as well as reveal any issues.

## Why an inspection

A home inspection can reveal safety issues, illegal installations, and other maintenance and structural issues that you would want to know about before buying the home. Depending on the severity of the inspection findings, you could either back out of your offer or negotiate. While it may be tempting to save a few hundred dollars and skip the home inspection, it could save you thousands of dollars if the inspection reveals issues. Walk around the home with the inspector and ask questions as you go. You may get more information than what is written in the report.

## Coordinating the inspection

It is your responsibility to schedule the inspection, but most real estate agents will schedule this for you. It's important to have the home inspection soon after the seller accepts your offer and to find a time for the inspection that works for all parties, including the seller. This could impact the offer and the sale of the home. You and your real estate agent will likely want to be at the property while the inspection takes place. The seller will usually need to leave the home during this event.

## The home inspection

During the home inspection, you'll want to tour the property with the inspector, if possible. If certain areas of the home concern you, make sure to point those out. You can also ask questions about general maintenance and care for various items.

# Home Inspection

What the inspector typically looks at	What the inspector typically does not look at
<input checked="" type="checkbox"/> Electrical	<input type="checkbox"/> Pests
<input checked="" type="checkbox"/> Gas	<input type="checkbox"/> Asbestos
<input checked="" type="checkbox"/> Plumbing	<input type="checkbox"/> Lead
<input checked="" type="checkbox"/> Roofing	<input type="checkbox"/> Radon
<input checked="" type="checkbox"/> Insulation and ventilation	<input type="checkbox"/> Mold
<input checked="" type="checkbox"/> Heating and cooling systems	
<input checked="" type="checkbox"/> Major appliances like the refrigerator, washer and dryer	
<input checked="" type="checkbox"/> Fireplaces and venting	
<input checked="" type="checkbox"/> Foundation, crawl spaces and the wall structure	
<input checked="" type="checkbox"/> Exterior features like driveways, deck and surface grading	
<input checked="" type="checkbox"/> Interior features like stairways, garages, basements & windows	

Part of the inspection process is getting answers about the home's structure and condition, so it's important to ask questions. If you're unsure about something your inspector says, make sure to ask for clarification. The inspection will also be one of the last times you'll visit the home before your purchase. It's a great time to take photos and measurements for items like window blinds and furniture.

To keep track of what you want an inspector to look at, download the [home inspection checklist](#).

## After the inspection

After the home inspection, you'll want to take your time going through the report with your real estate agent. If you find problems, such as a roof that needs replacing, think about how you want to deal with them. You might ask the seller to either make repairs before you move in or to take money off the purchase price so you can make repairs once you take ownership. If the seller does not want to negotiate, or the inspection reveals things like room additions that aren't up to code, or you discover other problems that compromise the integrity of the home, you'll want to determine if you're prepared to either take care of these issues or walk away from the sale and continue your home search.

**This is a great time to ask your real estate agent for insights on what might be a deal breaker, and what is worth negotiating.**

If your inspection doesn't reveal anything that compromises the integrity of the home or only minimal issues that aren't worth negotiating, then the home purchase will continue to move forward.

# Home appraisal

## You'll learn:

**An appraiser's role in the homebuying process**

**What an appraiser will look for**

**What to do if your home appraises for less than your loan amount**

While an inspection looks for defects in the home, a home appraisal leverages a highly trained professional to determine the current appraised value of it prior to its purchase. In addition to the visual inspection of the home, the **appraiser** will take into consideration recent sales of similar properties in the area, current market trends, and features of the home like the square footage, the floor plan, and the general condition of the property. This is another cost you'll want to account for in addition to the down payment, inspection, and moving costs.

### **Appraiser:**

A person qualified by education, training, and experience to estimate the value of real and personal property.

## Why appraisals are usually required

A home appraisal will establish a value that will be used to calculate the amount of money that will be lent to you for the mortgage. This is important to the lender because they want to be sure that they understand the value of the asset and the risk they take for lending you money on that property.

## How an appraisal works

Your lender will schedule the appraisal with a licensed appraiser. Although your lender makes the arrangement, you are responsible for the payment. You can choose to participate in the appraisal, but it is not required. During the appraisal, the appraiser will assess the general condition of the home, the age of the home, the location of the home, lot size, square footage, number of bedrooms and bathrooms, major structural improvements like remodels and additions, and any additional features, such as an in-ground swimming pool. Appraisers are trained to avoid giving subjective opinions about the home, its decorations, or cleanliness. When figuring out the home's value, an appraiser will consider similar home values within the area as well as their location.



## What an appraisal determines

Basically, an appraisal determines the current appraised value that the lender will use to underwrite your loan. If the appraisal comes in at less than the purchase price of the home, your lender may not approve your loan or lend you the full amount.

<p><b>If your loan is not approved, you may need to do one of the following:</b></p>	<ol style="list-style-type: none"><li data-bbox="781 457 1208 512">① Go back to the seller and try to negotiate a lower purchase price for the home</li><li data-bbox="781 533 1162 588">② Ask the lender to allow you to order another appraisal</li><li data-bbox="781 609 1062 663">③ Walk away from the sale</li></ol>
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You will definitely want to discuss your options with both your lender and your real estate agent. If an appraisal comes in at the same value as the price of the home, or more than that amount, you are good to move forward with the original loan amount requested.