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Professional Assistance—What to Expect

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# Professional Assistance — What to Expect

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Purchasing a home represents a major financial investment which most consumers make once, or perhaps, only several times during a lifetime. While this experience alone is not enough to make you an expert in home ownership, there are professional specialists who can help you find the home you want, assist you with the purchase process, and see that your investment is protected.

## Real Estate Agents

The **real estate broker**, agent or salesperson is probably the most helpful source of factual information about the housing market in your area. He/she is a licensed professional whose role is to bring buyer and seller together. The agent is knowledgeable about what homes are available and can lead you to more homes in your price range. If you happen to be new to the community the agent can provide valuable information about property tax rates, zoning, municipal services, transportation facilities, neighborhoods, growth trends, location of schools, churches, shopping, etc. In addition the salesperson has a working association with and can recommend other professionals whose services you may want, such as: lawyers specializing in real estate, mortgage lenders, appraisers, and licensed engineers.

Brokers may be engaged by sellers in several ways. An **open listing** means that several agencies may have been notified by the seller, and the first broker to find a buyer will receive the commission. An **exclusive listing** means a given broker has an exclusive right to sell the house — within a specified period of time, although the seller also retains the right to sell directly, through his own efforts. An **exclusive right to sell** means that the broker will receive a commission, regardless of who produces a buyer for the house. In most metropolitan areas, real estate brokers cooperate in a **multiple listing system** (MLS) which means that you as buyer will have access to the listings of all homes of the cooperating

brokers and are not limited to only those of an individual broker. You may enlist the services of more than one broker in order to insure access to as many potential homes as possible that suit your needs. However, finding and working closely with one agent you feel comfortable with, who is knowledgeable about your needs as well as the market, is more likely to assure you of the concentrated attention and assistance your search for a home warrants.

The real estate broker is usually paid a 5 percent to 7 percent commission by the **seller** only when a sale is made. Because you as a buyer are under no obligation to the real estate agent, you will have the most to gain by being completely frank with this specialist about what you want and can afford in housing. A good broker is interested in helping you find a home to suit your needs, because she/he knows that a satisfied customer is the best insurance of acquiring new prospects. The agent also has opinions and personal preferences too, so be sure to ask specific questions that require factual answers.

Most real estate brokers or agents (95 percent) belong to professional associations which support ethical standards and provide committees or review groups to handle complaints and grievances from home buyers and sellers. **Realtor** and **Realtor-Associate** are registered trademarks that identify members of the National Association of Realtors. **Realtest** is a copyrighted designation for members of the National Association of Real Estate Brokers. Non-affiliation with a professional association does not mean a broker is unqualified or incompetent; but membership does attest to the willingness to subscribe publically to a code of ethical standards. Local real estate boards, mortgage officers, Chamber of Commerce and Better Business Bureaus may be contacted to check out the qualifications of a particular broker. And friends, co-workers, relatives, neighbors in a prospective area can be consulted for their recommendations of a conscientious and reliable broker.

## Attorneys

Since buying a home involves important legal ramifications, it is highly recommended you retain the services of an attorney to assist you in the buying process. An attorney who specializes in real estate transactions, contracts and taxes can help you avoid costly legal problems that could later claim your home and investment.

While most homes are bought without legal problems, independent legal advice is insurance that problems will not arise in your unique situation. This advice is most crucial when you are ready to submit an **offer to buy**, or when a land contract or a cash purchase is involved. The cost of legal services will range from \$25 upward depending upon services rendered and fee schedule.

Since expertise, service and fees vary substantially, contact several attorneys to compare what you can expect to receive for an estimated fee. If you do not have or know an attorney, ask mortgage officers, the local bar association or a trusted real estate agent to recommend those specializing in real estate.

These are some of the ways an attorney can protect your interests in the home buying process:

1. Before you sign the **offer to purchase** or **binder**, have your attorney read it over to be sure it contains all the necessary provisions, including conditions which would void the offer. The offer to purchase is a legal expression of your intent to purchase and when signed, accompanies the payment of earnest money (a small percentage of the purchase price) which should be returned to you if the seller does not satisfy one or more of the stipulations in the contract. Have your attorney check to see that the offer to purchase is tailored to your individual situation. Some of the provisions it should include are the following:

- a. the purchase price and how the purchase will be financed.
- b. the down payment.
- c. a legal description of the property, including any fixtures to be included in the sale (such as major appliances, lawn care equipment, swing sets, etc.).
- d. occupancy date and fees.
- e. considerations which may void the agreement (such as inability to obtain a mortgage or sell present home.)
- f. any other agreements between buyer and seller (such as repairs to be completed.)

2. Have your attorney look over all documents and make sure they are properly prepared and executed **before** the closing. If all the documents are in order it may be unnecessary for the attorney to attend the closing with you.

In some areas, you will receive an **abstract**, which is a summary of the legal history of the piece of real estate you are buying. It is not a guarantee of a **clear title**, however, so your attorney should examine the abstract and issue a legal opinion as to the marketability of the title. The attorney is **not** responsible for detecting clouds that are not a matter of legal record and which may arise in the future.

In Michigan, the majority of mortgage lenders require a mortgage title policy which insures the lender should defects in the title arise. The mortgage title policy is issued for the amount of the mortgage and is paid for by the home buyer in a one-time payment at the time of closing.

The home buyer may also wish to obtain an **owner's policy of title insurance** which protects them against loss of the equity if there is a claim of ownership arising during the buyer's ownership — whether the claim should have been discovered through a title search or was a matter that could not be identified through public record (e.g., forgery of a deed, deed signed by a minor, missing heirs of a former owner, deeds signed by persons secretly married or not legally divorced, documents incorrectly filed or recorded, etc.). In Michigan, the home seller pays for the owner's policy in a one time payment at the time of the closing. Under the terms of an **owner's policy**, the insurance company will pay for the legal fees and claims resulting from legal action because of defects in the title.

3. In addition, an attorney can recommend the kind of deed you should have and how you should take **title** to the property, or what form of ownership is best for you.

As with other professional services, you should be prepared to discuss your situation openly and frankly with your attorney so that he may give you the best guidance. The lawyer-client relationship is a legal one which assures confidentiality and total allegiance of lawyer to client's interests.

## Mortgage Officers

Since mortgage officers routinely deal with home buyers, sellers, real estate agents, attorneys, appraisers, and others, they can be especially helpful as the consumer approaches and becomes involved in the home buying process. There are several reasons consumers respect the lender's assistance:

- The mortgage officer's primary interest is in investing savers' deposits in safe, secure and profitable ways; thus, the mortgage officer will help the home buyer avoid major over-investment and situations which clearly jeopardize the buyer's (and lender's) security (i.e., structural deficiencies, legal problems, and so on).

- The mortgage officer has both first-and second-hand knowledge of how real estate agents, attorneys, appraisers, and others have served home buyers in the past. Furthermore, the mortgage officer receives no direct financial benefit by recommending other professionals who can serve home buyers.
- The mortgage officer's greatest expertise is in the area of financing; therefore, he or she will be able to assist you in evaluating types of available mortgages, current interest rates, minimum down payment requirements, types and amounts of closing and prepayment costs, and monthly payments. Recognize, however, that the types and costs of available financing will vary between lenders; thus, as a home buyer, you should investigate a variety of sources.

To select a lender, consider the following facts as you comparatively shop for mortgage financing:

- Savings and loan associations make the largest share of home mortgages; national and state banks are more likely to make mortgages as a "service" to their own depositors and customers (you, your employer, the seller, the buyer of your existing home); mortgage bankers make their largest share of mortgages through real estate agents.
- Savings and loan associations as well as banks generally prefer to make conventional or conventional-insured mortgages since greater costs, paperwork and time delays are often involved with state and federally insured or guaranteed mortgages or loans, such as Michigan State Housing Development Authority (MSHDA), Federal Housing Administration (FHA), and Veterans Administration (VA) mortgages. However, some lenders are quite involved with these loans. (For more information about these particular mortgages, contact the local offices of the respective institutions.<sup>1</sup>)
- In addition, major lenders, such as those previously listed, may not handle certain types of financing attractive to moderate income and rural/small town home buyers, such as Farmers Home Administration (FmHA)<sup>1</sup> (for "modest" homes purchased in areas of 20,000 population or less), MSHDA, VA, and Federal Land Bank (FLB)<sup>1</sup> mortgages (for "medium price" homes

in rural areas and small towns with populations under 2,500).

Take the time to explore the sources and types of financing available to you as a home buyer. Select a lender who can offer you the most favorable financing and sound advice about buying.

## Appraisers

When you have located a home you wish to buy, get an appraisal of its **true market value** by an independent, professional fee-appraiser. The appraisal will give you an idea of whether the selling price is in line with the real value of the property. An appraisal is based on 1) the market or **comparable approach**, which takes into account the sales prices of similar houses; and 2) the **cost approach**, which takes into account the costs of buying a similar lot and building a similar house, minus depreciation. If you are in doubt about what to offer on a house, an appraisal is a good way to get an estimate of a fair price.

Because the mortgage loan is based on true market value, the lender will also require an appraisal of the property before determining your loan, a service for which you must usually pay. This appraisal is done by an appraiser working for the lender, and may or may not be as thorough as it should be. It is now a federal law that the lender must show you his appraisal, if you request to see it. A sound appraisal will give consideration to the following factors: selling prices of comparable house; value of the land and costs of reproducing house as it now exists; tax structure of the community and traffic patterns in the area; an estimation of the stability of the neighborhood; convenience of shopping centers, schools, city services; general visual appearance of the house and neighborhood. The appraiser generally does not evaluate the structural soundness of the home.

Generally, the most effective way to involve an appraiser is after you have signed a purchase agreement containing a clause similar to ". . . offer is contingent upon an estimated market value of not less than \$XXXX obtained by an independent, fee-appraiser selected by the buyer . . ." (Check with your attorney for exact wording.) It is especially important to recognize that an independent, professional fee-appraiser can serve your interests as a buyer more effectively than a real estate agent or another member of the agent's firm who has a financial interest in a sale.

The quality and reliability of appraisals vary substantially. To have legal standing in Michigan, the appraisal must be made by a licensed broker. A lender usually can help you identify the most helpful appraisers in the community. The American Institute of Real Estate Appraisers is a professional organization that has adopted codes of ethics and standards of professional conduct for its members. (Check the yellow pages of your phone directory for listing<sup>2</sup>). The

<sup>1</sup> For **FHA**, **FmHA**, and **VA** check telephone directory under United States Government; or write to the following for office nearest you: **FHA**, Dept. of Housing and Urban Development, 2922 Fuller St. NE, Grand Rapids, MI 49505; **FmHA**, 1405 S. Harrison, East Lansing, MI 48823; **VA**, 477 Michigan Ave., Detroit, MI 48226. For **MSHDA** check phone directory under Michigan State Government, or write: MSHDA, 401 S. Washington Ave., Lansing, MI 48901. For **FLB** check phone directory under Federal Land Bank Association.

yellow pages of your phone directory for listing<sup>2</sup>). The appraiser's fee will vary from about \$60 upward depending on the services rendered. The fee for an independent appraisal is a worthwhile investment and can save you problems later on, especially if you are not sure about what is fair and what isn't in the real estate market.

## Home Inspectors

To avoid unpleasant structural or mechanical problems, you may wish to have a professional inspector evaluate the home, especially if you are purchasing an older home, although inspection of a newly built house may reveal incomplete work or oversights in construction.

1. An **engineer, contractor** or other individual knowledgeable about construction will thoroughly inspect a house for a fee (usually \$60 to \$150, depending upon services rendered). The inspection should include a check on the condition of the furnace, foundation, walls, floors, roof, electrical circuits, plumbing, and sewer system; whether the home is adequately insulated, and if there's any evidence of dangerous settlement or termite invasion. The buyer usually accompanies the specialist on the evaluation tour.

Following the inspection, the home buyer will receive a listing of deficiencies. If serious defects are discovered, a lower purchase price can usually be negotiated. Should major repairs be needed, consult a contractor for an estimate of their cost. You may insist on repair of minor flaws by present owner before signing final papers, or stipulate that they be done before taking possession. (Check the yellow pages of the phone directory under Building Inspection Service for professionals in your locale.)

2. Check your local unit of government (city, village or township) to see if there is a **housing code**. If there is, you may want your contract to specify that conditions of sale are contingent upon seller furnishing evidence of code compliance at the closing, at his own cost. Housing codes are concerned with conditions, maintenance and use of **existing residences**. In general, they cover facilities that must be supplied and level of structural and sanitary maintenance. Check with the building or planning department of your local government unit for specific details of the housing code and its level of enforcement.

3. Also check with your local unit of government to determine what **construction codes** are in effect in your community for **new-built houses**. Construction

codes set minimum standards for structural specifications and the correct installation of materials.

- a. In Michigan, **all** new-built homes must comply with the official State Building Code (effective 1974) or some local variation. Mandatory provisions include 1) barrier free design standards, 2) construction material standards, and 3) approval of modular or factory built components for housing.
- b. Minimum standards also exist for plumbing and electrical systems, and for energy-efficiency in new-built homes. In some, but **not all** areas of the state, there are codes in effect for mechanical systems in newly constructed homes.

## Sources of Further Information

In your search for accurate and helpful information about home buying, don't overlook some other sources of general information such as: local, county and community college or university libraries; County Extension office; newspaper ads; popular magazines; and neighborhood organizations. Although biased by their desire to promote their own trade, associations can provide information about their products as well as members providing specific types of service. (Check the yellow pages of the phone directory under Business and Trade Organizations; or the white pages under Michigan Associations.)

One final source of information, biased though it may be, is advice from friends, relatives and co-workers. Seek advice from those whose judgment you trust and weigh it in balance with that which you receive from professional experts.

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## Additional References

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<sup>2</sup> The national office is located at 155 East Superior Street, Chicago, IL 60611.