Home Buying Process

Khan Academy

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I. Deducting interest from your taxes means that the interest that you pay can be used to subtract from your **income** on your tax returns
    a. Ex: If you make $100k a year with a 35% tax bracket, then this means that you pay $35k a year. So if you paid $10k in interest that year, you can say that your income was only $90k that year. This is what is meant by **deduction**.
    b. Interest is tax deductible
    c. When it's actually subtracted from your taxes, it is called a **tax credit**

II. In the beginning, you are mostly paying off your interest and the principal is minimal. Then towards the end of the term period, you are paying mostly the principal and the interest is minimal

III. 5/1 ARM Mortgage
    a. Means that the bank will fix a rate for 5 years based on a particular percentage (it may be low) and then can adjust the interest rate annually to whatever the rate is in the market + whatever the contract of the mortgage says

IV. Short Sale
    a. Selling the house for less than what you owe the bank
        i. Ex: so if you owe the bank $150k but are able to sell the house for only $120k.
    b. The bank that gave you the loan has to agree to it
        i. Because they have to forgive the balance of the loan
            1. However, the IRS may consider this income and may charge you income tax for it
    c. The bank may still report you to the credit agencies
        i. Though you can try and negotiate with the bank to not to
    d. Usually people do this when they can't pay their mortgage anymore and don't want to foreclose and also cannot sell the house for equal or more than the owed amount
        i. Because foreclosure hurts your credit
        ii. Banks may be open to it because it's more expensive for the bank to foreclose

V. Titles and deeds
    a. Titles are what is used to determine who actually owns the property to sell
        i. Otherwise, people can scam each other
        ii. These legal documents are called deeds
    b. Used to transfer properties to each other
    c. Information available via public records and can be obtained via a *Title Search*, which makes sure that the title is clean
    d. Usually before purchasing a property, research is done to assure that there are no liens on the house as well
        i. Money is usually not transferred to the seller before doing a title search and any liens on the house
            1. Have to assure that the seller actually owns the property
    e. Title is really filing a deed with the county or city

VI. Title Insurance
    a. Protects the purchaser of the house in case the property has some lien on it in the future due to a previous owner's mistake or someone claims ownership or some other legal mess over its ownership
        i. Maybe the title search was not done properly
    b. Very rare that someone will go through this so usually the insurance is pretty cheap
    c. Lenders usually require the purchaser to have it
        i. Because otherwise the bank is left with the mess since they've put down most of the money for it and the purchaser can walk away
    d. It's a good idea to have it even if you pay all in cash because you never know

VII. Making an offer on a home
    a. Buyer fills out an **offer contract** to indicate that he/she is serious about buying it

        i. Deposit and down payment checks go with it. Again, this is to show that you are serious about the purchase
            1. Could be a certain percentage of the purchase price
                a. Typically it is 3%
        ii. You can also throw some contingencies in the contract
            1. Ex: inspect house, termite check, inspect plumbing, inspect electrical, financing, insurance, title is clear, etc.
            2. This allows you to get out of the contract and get your deposit back if the contingencies are not met
                a. The deposit is usually $1-2k but goes towards the down payment
        iii. Includes closing date
        iv. Includes closing costs as well and who will pay them
    b. The seller can either
        i. Accept your offer
        ii. Reject your offer
        iii. Give a counter offer
            1. May even ask to renegotiate the contract contingencies or any other part of the offer contract

VIII. Escrow
    a. Once the seller and buyer both agree to the contract and sign it, the transaction will move forward to this step
    b. Escrow is a trusted third party that assures that the buyer and seller both have met their obligations before transfer of the property to the buyer and the money to the seller
    c. Escrow agents manage the escrow account, which is opened after the offer contract is signed
        i. So the initial down payment on the house goes into this account and not to the seller
            1. Then the seller can allow inspectors go in and check the house, other things the contract demanded from the seller, etc.
        ii. Rest of the financing for the house from the bank also comes into this account
        iii. The results of the inspection also come in to it
    d. Escrow is usually used for any high level asset transactions and not just houses
    e. Once all of the parties have met their obligations, the escrow account is closed
        i. This is what is known as the **closing date**
        ii. The buyer gets the keys to the house and the seller gets his money
    f. Could take a while even months
    g. Basically, everything related to the transaction is gathered here to verify everything before closing

IX. Types of escrow in real estate
    a. Opening of escrow
        i. When you’re buying a house as discussed above
    b. When you’re making your mortgage payments
        i. Your bank works with an escrow company to collect property taxes and insurance on the house
            1. So if your mortgage is $1000/mo, you may be paying an extra $200/mo to pay for insurance and property taxes
                a. Given that your insurance on the house and property taxes collectively are $2400/yr
            2. So each month you are actually paying $1200
                a. The extra $200 for insurance and property taxes is being collected in an escrow account
        ii. The escrow account then pays for the insurance and property taxes when it receives the bill
        iii. This is usually done by the bank to safeguard itself from financial trouble in case the buyer of the house runs off and has back taxes on the property or the buyer runs off after the property is destroyed in a natural disaster, etc.