



Real Estate Lingo 101

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An Appraisal

An appraisal is a service that is ordered by a mortgage lender at the time a person either purchases a home or refinances their mortgage. The appraisal is conducted by an appraiser of the lender's choice prior to the closing of a sale so that the lender can be sure that they are loaning the appropriate amount of money out to the home buyer. The appraised value is based on the size of the home, number of rooms, its location and the prices of similar homes that have sold in the area. The overall condition of the home and updates made to the home are not always considered, therefore, the appraised value doesn't necessarily have any bearing on what the home should be listed for on the real estate market. However, the appraised value does effect whether or not a lender will grant a home buyer the loan.

A Home Inspection

A home inspection is a service that is ordered by a home buyer before the purchase of a home is finalized. Most offers on homes are contingent on the results of a home inspection. There are many private home inspection companies throughout the Twin Cities that are available to the home buyer, who pays for the service out of their own pocket. The inspector will inspect the areas & mechanics of the home to assure everything is in proper working order without any obvious hazards. The inspector will also provide education to the home buyer about proper maintenance of the home and familiarize them with the product they are purchasing. The home buyer will take the inspection information and deal with it as they see fit; whether it be cancelling the purchase due to inspection results, taking on the recommended repairs themselves after they move in, or negotiating the recommended repairs with the sellers of the home.

A "Point of Sale" or "Truth in Housing" City Inspection

Minneapolis, St. Paul, and a handful of suburbs require home owners to have an inspection conducted prior to listing their home for sale. This inspection is less evasive than a buyer's home inspection and should not be considered a replacement for it. The city inspector will look for and indicate hazardous or potentially hazardous aspects of the home and depending on the city the home is in, the seller may be required to make repairs or just report the hazards to potential home buyers.

A Sellers Property Disclosure Statement

All sellers are required to provide a Property Disclosure Statement for any given property that is for sale. For “normal sales” (see Understanding the 3 Types of Properties For Sale), a nine-page disclosure must be provided. For properties being sold as-is, such as foreclosures, or properties that are estates (both of which the seller has never lived in the home), only a brief 2-3 page disclosure is required. The nine-page Statement discloses such things as roof damage, water intrusion, mold and other environmental hazards, meth production, burial of human remains, and any other issues that may have occurred that a potential buyer should be aware of. Failure to disclose such issues is illegal and a seller can face significant consequences if caught. The 2-3 page Statement discloses fewer issues, as the seller has never lived in the home and therefore cannot disclose information they are not aware of. In addition, if the home was built before 1978, a disclosure regarding lead based paint must also be available to potential buyers to review. Also, if a home has a private well and/or private septic system a disclosure regarding the use & existence of them must be provided.

“Seller Paid Closing Costs”

When a buyer purchases a home, there are additional fees involved besides the price of the house and the down payment. These additional fees are called “closing costs” and they consist of things like pre-paid insurance, real estate taxes, recording fees to the county, service fees to the title/closing company & mortgage person, etc. If a buyer purchases a home for around \$200,000, the typical closing costs are going to amount to about \$6,000. The buyer has two options when it comes to paying for closing costs: 1) Pay for them in cash at the closing or 2) See if they can add them onto their mortgage. Most buyers nowadays will opt for the latter, since many people don't have \$6,000 in additional cash available. In order to legally accomplish this, they must add on the closing costs to the amount they are offering the sellers. So, for example, if they would like to offer a seller \$165,000, and their closing costs were going to cost \$5,000, they would then offer \$170,000 and ask the sellers to keep \$165,000 of it and give them back \$5,000 at the closing to pay for the closing costs. In the end, the total mortgage for the buyers will be \$170,000 and the sellers will take \$165,000 as their proceeds for the home.