

GLOSSARY OF TERMS & CONTRACTUAL DOCUMENTS

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GLOSSARY OF TERMS

Assessment

The value assigned to your property by the government for tax purposes. Your assessment is typically based on a combination of comparable or neighborhood sales within the last two years. The frequency of assessments varies by locale, but a property is typically reassessed every year or so. In the Commonwealth of Virginia, state law mandates that homes be assessed at 100% of the market value. However, the government's definition of market value and a consumer's definition can vary greatly. Talk with your Broker about the intricacies behind assessments.

Appraisal

An estimate of a property's value by a licensed real estate appraiser. Appraisals are based on a variety of factors, including overall regional market conditions, neighborhood market conditions, recent comparable sales, how much it would potentially cost to replace the property, and what the investment or rental value of the property would be. When using recent comparable sales, appraisers typically only look at sales within the last six months. In the home buying process, the appraisal is ordered by the lender in order to determine if the property's value is greater than, less than, or equal to the purchase price.

Contingency

A condition of the contract that must be fulfilled by the buyer or the seller prior to the home closing. If a contingency is not, or cannot be satisfied prior to the agreed upon timeline set forth in the contract, the offer on the property may be terminated by one of the parties. Examples of some common contingencies include: financing contingency, home sale contingency, inspection contingency, and appraisal contingency.

Counteroffer

A type of offer made in response to another offer, which was seen as unacceptable. A counteroffer revises the initial offer, making it more appealing for the person making the new offer. Responding with a counteroffer allows a person to decline on a previous offer, while allowing negotiations to continue. When a counteroffer is made, by definition, the preceding offer is rejected. It may take one or multiple counter offers to find a meeting of the minds for a contract.

Closing/Settlement

These terms are interchangeable and represent the close of a real estate transaction. Settlement occurs when the buyer, seller, and their designated representatives sign closing documents and exchange keys and money. The settlement is not official until the transaction has been recorded at the local county office.

Closing Costs/Fees

incurred from the purchase of your new home. While there are potentially fees incurred by the buyer throughout the entire real estate transaction process, closing costs are the fees specifically listed on the HUD-1 statement and paid at the closing table. Typical buyer closing cost fees include county and state taxes, lender processing fees, title insurance, and attorney fees, among others. Closing costs can vary widely based on the buyer's loan program and other factors.

Deed of Trust

A legal document filed with the county that documents the mortgage/lien on a property. This is a document the buyer signs when the deal closes and he or she will receive a copy once the original is recorded by the county. In many parts of the country, the document used is a mortgage; in Virginia, we use a deed of trust.

Discount Points

This is a type of mortgage fee that enables a buyer to lower his monthly interest rate by paying an upfront fee at closing. This is also referred to as buying down the interest rate. One point equals one percentage of the loan amount (for example, on a \$250,000 mortgage, 2 points would equate to \$5,000).

Escrow/Earnest Money Deposit

A deposit that a buyer pays, per the terms of the contract, to show that he or she is serious about purchasing the property. Sometimes referred to as the EMD or Good Faith Deposit, this deposit is typically held by the purchaser's real estate brokerage or an attorney. This deposit is typically given to the buyer's agent at the time the offer is made and is deposited soon after contract ratification. If the sale is completed, the earnest money is generally credited to the buyer's property acquisition expenses. If the sale does not close, through no fault of the buyer, the buyer may recover the earnest money. If the buyer defaults on the contract, the seller may be able to retain the earnest money, as well as pursue further damages.

Foreclosed Home/REO

Short for "real estate owned," REOs are foreclosed homes that are currently owned by banks or lending institutions. In some cases, REOs may be purchased below market value. However, there are additional risks that buyers take when they purchase foreclosed properties, including possibly having fewer opportunities for property due diligence.

Final Walk-Through

This is the final inspection of the home by the buyer prior to closing. At this time, the buyer and the buyer's agent will conduct a walk-through to ensure the property is in the agreed upon condition and all requested repairs have been completed in accordance with the contract. The final walk-through is typically scheduled anywhere between a few days, to a few hours prior to closing. It's typically better to do the final walk-through as early as possible so that if there are additional repairs that need to be completed, the seller has time to coordinate those repairs.

Good Faith Estimate / GFE

A lender-created document that outlines all fees and deposits required for the home loan. By law, a lender must deliver this estimate to the buyers within three business days of receiving a formal loan application from a borrower. Once the lender has disclosed certain fees, those fees cannot change prior to closing. However, there are other fees that can change such as title insurance, escrow or settlement fees, and appraisal fees, but only by a maximum of 10% from those disclosed on the GFE. Any change beyond 10% would have to be paid for by the lender.

Home Inspection

This is widely considered one of the most important inspections or contingencies of the entire real estate transaction. An in-depth inspection of the property by a licensed inspector is meant to provide insight and knowledge about the current condition of the home. The inspection typically covers electrical, mechanical, structural, plumbing, major appliances, heating, and air conditioning, as well as some additional features of the house. In recent years, there have been more and more home systems beyond this standard list that are being evaluated closely. You will want to plan with your Broker which evaluations are necessary for your particular purchase. The buyer pays for the home inspection at the time of inspection.

Closing Disclosure

The official settlement document for the purchase and sale of real estate. The form is completed by the attorney/settlement agent handling closing and lists all costs of the transaction for both the buyer and the seller, including the cost of the property, the real estate broker's fees, the lender's fees, the cost of title insurance, and the escrow agent's fees or attorney's fees. To avoid surprises, settlement agents will typically provide both buyer and seller with a preliminary version of the closing disclosure in advance of the closing.

Loan Application

Per the terms of the contract, the buyer is required to make a formal application with the lender within a specified timeframe. While the buyer is free to “shop” different lenders to make sure they are choosing the right lender, the formal loan application occurs when the buyer has made their final decision. Once the initial loan application is completed, the lender submits the application to underwriting to get the process started.

Multiple Listing Service/MLS

A suite of services that compiles a current and previous history of real estate for sale in a central database to enable real estate brokers to research the previous listing/sale of properties and to provide a platform of cooperation among brokers.

Offer

Often used interchangeably with the phrase “submit a contract,” the offer is merely that - an offer or proposal of terms to the seller. A contract is ratified when all parties have had a meeting of the minds, have signed the contract, and the contract has been delivered to all parties.

Pre-Qualification

This is an initial analysis of a buyer’s creditworthiness to give the buyer a general idea of their purchasing power. The pre-qualification is a less-formal process and the “pre-qual” letter is typically based on unverified information given from the lender to the buyer.

Pre-Approval

More in-depth than pre-qualification, the pre-approval process helps establish a more detailed snapshot of the buyer’s purchasing power. Lenders will verify credit, income, employment, and other assets when the buyers gets pre- approved. Typically, this is done prior to searching for a property with your Buyer’s Broker. In addition, most sellers require a pre-approval letter from a reputable lender when an offer is submitted for consideration.

Ratification

This occurs when a written contract (and any related documents) have been agreed upon by all parties, signed by all parties, and delivered to all parties involved. This is the date from which all following contract dates are based.

Short Sale

The term “short sale” is used to describe a sale where: (1) the liens against a property combined with the associated costs will exceed the purchase price of the property and (2) the seller will be asking the lien holder for a release of the lien on the subject property without a complete payoff. If you are interested in making an offer on a short sale, you need to be aware that there are a lot of unknowns with short sales. Most notably, the timing of your closing is oftentimes up in the air until just a few days prior to the eventual closing. Even if a contract is ratified between the buyer and the seller, the lien holders (lender(s) or government agencies) must also approve the terms of the sale. This approval process could potentially take several months. While you may be able to purchase a short sale at a “discount” to market value, there are many stressors that may also come along with the short sale purchase process. Please consult your Broker to better understand the short sale process.

Title

This is a legal document that gives an in-depth overview of the ownership history of a particular property. A buyer’s attorney will typically conduct the title search to ensure that the seller has the legal right to sell the property, if there are any liens on the property, or if there are any easements or encroachments to be aware of.

Title Insurance

Title insurance protects against losses resulting from problems with the title. There are two types of title insurance: a lender’s policy protects the lender’s interest in the property, and the owner’s policy protects the buyer’s interest in the property. The cost of title insurance varies by market, price of the property, and the extent of the coverage. This is a one-time fee that is paid at closing and will be listed on the HUD-1 statement. It’s important to keep a copy of your title insurance policy forever in case the chain of title is ever legally challenged.

CONTRACTUAL DOCUMENTS

You will see many forms during the home buying process. Here's a quick overview of some of the most common documents:

Residential Contract to Purchase

The residential contract of purchase is the main contract that is used for resale purchases throughout the area. If you are purchasing land, multi-family, or a new construction property, then different contracts will be used.

Home Inspection Addendum

We highly recommend having a licensed professional inspect your home. The HIA is a form that allows you to have a home inspection of the property. This contract form also outlines the timeline for the inspection period and defines the type of scope of inspections that will be done.

Home Inspection Removal Addendum

This is the form that will be used to outline any applicable repairs or work, based on the home inspection results that the seller will complete or have completed prior to closing.

Addendum to the Contract of Purchase

An Addendum is an additional contract for that is optional and is written prior to an offer being ratified. The Addendum is used to state any terms that may not be a part of the standard contract. For example, if a buyer wants the contract to be contingent upon the county allowing an in-ground pool to be installed in the backyard, this would be written on an Addendum.

Amendment to the Contract of Purchase

An Amendment is an additional contract form that is optional and is used to change the previously agreed upon terms of a ratified contract. For example, if a contract has been ratified and the closing date needs to be changed, then an Amendment would be used.

Radon Contingency Addendum

The RCA is a document that informs the seller that you are going to have the home tested for radon and clearly defines the process should the inspection find elevated radon levels.

Virginia Residential Property Disclosure Statement

The VRPD Act governs the information that owners must disclose to residential purchasers prior to contract ratification. The first thing to know about the disclosure is that Virginia is a "caveat emptor" (Let the Buyer Beware) state. That basically means that while sellers can't lie outright or actively conceal a problem, and must honestly answer prospective buyers questions when asked, they aren't obligated to point out the home's flaws to buyers. Because of that, the main onus of the property investigation falls on the purchasers. Some properties are exempt from the Virginia Residential Property Disclosure Statement; your Broker will notify you should this be the case with a property in which you are interested.

The disclosure statement gives notice to the buyer that the seller:

- Makes no representations or warranties about the condition of the property or its attachments
- Makes no representations regarding adjacent parcels
- Makes no representations about whether historic district ordinances affect the property
- Makes no representations regarding whether property is protected under the Chesapeake Bay Preservation Act
- Makes no representations about nearby sexual offenders
- Represents that there are no undisclosed pending actions under the Uniform Statewide Building Code, or zoning violations that have not been fixed
- Makes no representations regarding whether any storm water detention facilities are on the property, and makes no representations about the presence of any wastewater system on the property.

A builder selling a new home for the first time is not required to complete the disclosure form. The builder does, however, need to provide the buyer with written disclosure of any known defects that are in violation of the building code.

Summary of Rights and Obligations

The VAR SOR document defines the buyer and seller obligations pertaining to the RPDA. It reiterates many of the details outlined in the RPD statement, and goes into additional information pertaining to some local and county specific laws, as well as some additional disclosure scenarios.

Appraisal Report

When bank financing is involved, the appraisal is usually ordered through the buyer's lender and is delivered directly to the lender by the appraiser. Aside from estimating the value of the property, the appraisal may indicate various conditions that could affect the value of the property. The appraisal may contain three different approaches to value:

1. The cost approach - This is sometimes referred to as the replacement value approach. In this method, the appraiser estimates the total cost to replace the equivalent home on the current land.
2. The sales comparison approach - In this method, the appraiser analyzes the property's characteristics with those of comparable properties that have recently sold in similar transactions.
3. The income approach - This approach is used to value income or investment properties using projected cash flow to determine an investment value of the property.

Covenants, Conditions and Restrictions/CC&Rs

The CC&Rs or deed restrictions are recorded against the property and generally empower a developer or homeowner's association to control certain aspects of property use. These aspects of property use. These aspects may include architectural standards, landscaping, RV and camper parking, play equipment, satellite antennas, pets, and other common amenities. By purchasing a property governed by CC&Rs, the buyer agrees to be bound by the rules, restrictions, and guidelines. Thus, the CC&Rs form an enforceable contract. The homeowners association or individual homeowners can enforce the contract. It is essential that the buyer review and agree to these restrictions prior to purchasing a home. You might find some of the CC&Rs are very strict, particularly if the subdivision is governed by a homeowner organization.

Homeowners Association (HOA) Disclosure Packets and Governing Documents

In addition to CC&Rs, homeowners associations may be governed by Articles of Incorporation, Bylaws, Rules and Regulations, and often architectural control standards. The homeowners association is in place to enforce these rules and to preserve the value of homes in the community. If you are purchasing a home governed by a homeowners association, you should review and approve the homeowners association documents. In a standard purchase contract, the seller is obligated to provide the buyer with a full HOA disclosure packet. Once received, the buyer has three days to cancel the contract and be fully released from their obligations.

Home Warranty Policy

A home warranty may be part of the sale of the home. If a home warranty is not offered in the sale of the home, you may consider purchasing one. You should read the home warranty document for coverage and limitation information. There are several different types of home warranties - consult your Broker for advice if you are interested. However, please be aware that preexisting property conditions are generally not covered under the policies.

Lead Based Paint Disclosure

If the home you are purchasing was built prior to 1978, the seller must provide the buyer with a lead-based paint disclosure form. Your Broker will provide you with a packet with more information regarding lead-based paint.

Home Inspection Report

When you have a ratified contract on a home, we highly recommend that you have a home inspection completed by a licensed home inspector. A home inspection is a visual examination designed to identify not only defects in the home, but also to educate the buyer about the systems and mechanics of their upcoming purchase. The inspection typically covers electrical, mechanical, structural, plumbing, major appliances, heating, and air conditioning, as well as some additional features of the house. The home inspector will generally provide the buyer with a report detailing information about the home's current condition, as well as potential problems to be aware of. Please review this report carefully with your inspector and your Broker. Home inspections can range in cost, depending on the size of the home. You can expect to pay between \$400 - \$600 for a standard home inspection.

Ask your Buyer's Agent for recommendations on local inspectors.