

KENTUCKY HOMEBUYER DUE DILIGENCE CHECKLIST

“Due diligence” is what a prudent buyer does to make sure it is a good decision to buy a particular house. Since no house is perfect, it is essential that you identify the imperfections prior to closing. If you don’t, you may end up making a very expensive mistake. Here is a checklist that you can use to make sure you complete your due diligence.



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PRE-QUALIFY FOR A MORTGAGE

Before you look at any houses, find the best deal for a mortgage.



WHEN WILL YOU COMPLETE YOUR DUE DILIGENCE? BEFORE YOUR OFFER, OR AFTER?

In special circumstances, you may need to consider completing your due diligence prior to making an offer. But you’ll also incur costs even before you know whether you will get the house. In addition, due diligence, prior to making an offer, is not as in-depth or thorough as due diligence after you have the home under contract. Never buy a house without completing your due diligence.



REVIEW THE SELLER’S DISCLOSURE OF PROPERTY CONDITION FORM (KRS 324.360)

In Kentucky, sellers who have listed their house with a licensed broker/agent must provide the buyer with a completed Seller’s Disclosure of Property Condition Form.

- This Form requires the seller to disclose what the seller knows about various aspects of the property. You should read through this form closely and then ask questions. That said...
- **The Golden Rule of Due Diligence:** You should confirm for yourself anything that is important to you. Do not rely on what the sellers may have said, even in writing, whether in the Form or anywhere else. If it’s important, you must confirm it for yourself!



GET A HOME INSPECTION

A home inspection is the heart of due diligence! Only the most reckless of buyers would even consider buying a house without inspecting it first, because owning a home can lead to some nasty surprises. You don’t want to be surprised.

- Hire a general home inspector. Your agent or lender should be a good referral source, or use an online review site to find a good one.
- The general inspection may reveal other aspects of the home appropriate for further inspection by a specialist. Common examples include a stonemason to inspect a chimney, an electrician to inspect the electrical system, a roofer to inspect and assess the roof, HVAC inspector to inspect the heating and cooling systems, etc. Follow up as necessary.
- Don’t forget the sewer or septic system, a common and expensive “must-fix” item after closing.



RESEARCH THE TITLE

When you buy a home, everyone should always research the title of the property prior to the purchase. Retain the services of an attorney to review the state of the seller's title to the property and render an opinion of title to you and to your lender's satisfaction. As the buyer, you should be the one to choose and hire the attorney. Many times mortgage lenders will make suggestions on who to use and buyers will go with them because it's an easy decision. However, this is likely the most expensive purchase you'll have ever entered into. Don't you want to vet and choose the best possible attorney for your new house? Make sure you pick the best company for you.

- The word "title" essentially means "ownership." Ownership of a house can be complicated with lots of other people having some degree of "ownership" in it. For example, there may be liens on the property or an easement across it. These encumbrances will be revealed in the opinion of title.
- Have an attorney explain the contents of the opinion of title and its significance to you. An attorney is the only professional qualified to do so.
- Make sure your review includes any conditions, covenants, and restrictions (CC&Rs), which are common in newer communities. These documents impose restrictions on how you can use the property and may assess fees and liens. Make sure you are OK with these restrictions.
- The opinion of title does not tell the buyer or seller anything about existing and prospective zoning. An attorney can explain whether zoning prohibits a two-family home, or whether planned improvements violate zoning ordinances.



REVIEW THE HOA FINANCES AND MANAGEMENT

Many homes are subject to a Homeowners Association (virtually all condos, and many newer communities). Particularly where the HOA is responsible for the upkeep of some or all of the property, like a condo or a community

center, it is essential to review the HOA's financial documents to confirm that it is in good financial health and well managed. Because at the end of the day, if the HOA doesn't have the money it needs, you will be on the hook once you close. And you will be stuck with the HOA's decisions, even if you don't agree with them. Good management is essential.



CONSIDER PURCHASING TITLE INSURANCE

Check to see if insurance is available for the house's title. You will need to purchase homeowner's insurance, but title insurance is something entirely different. Title insurance can give you peace of mind as a buyer. It guarantees a clean chain of title and protects you, the new owner, from claims of validity. It allows you to avoid potential problems after you buy the house, including:

- Unpaid back taxes
- Pending legal actions against the property
- Old mortgages
- Forgeries
- Claims from heirs



CONSIDER A PROPERTY SURVEY

Most lenders will not require a property survey of your new home and a survey may not be necessary if the house is in a well-established platted subdivision. Always ask the sellers if they have a recent survey to share with you. However, always remember **The Golden Rule of Due Diligence**. A survey will reveal vital information about the land, including legal boundaries, physical features, structures built on the land, encroachments on to the land, and access to the land. With a survey, you will learn more about your potential land and can make sure there are not any mistakes.



THE CLOSING

The closing is the most important event in the purchase of your new home. The deed and other closing papers must be prepared. Title passes from seller to buyer, who pays the balance of the purchase price. Frequently, this balance is paid in part from the proceeds of a mortgage loan. A closing statement should be prepared prior to the closing indicating the debits and credits to the buyer and seller. An attorney is helpful in explaining the nature, amount, and fairness of closing costs. The deed and mortgage instruments are signed and an attorney can assure that these documents are appropriately executed and explained to the various parties.