

Home Buying Tips

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Buying Your First Home

Buying Your First Home - Making The Right Move

There are few things as rewarding as buying your first home. The sense of pride you feel can be enormous. When you make the decision to go from renting to owning, you are taking a step in the right direction. Home ownership can offer tax benefits, freedom to make decisions about your home, and investment benefits.

Still renting?

There are some benefits to renting; such as, short-term obligation, no commitment to maintenance, and no responsibility to other financial costs associated with ownership. But renting should be viewed as a temporary lifestyle. There are no long-term financial gains to renting. In some cases, monthly mortgage payments can be as low as renting. And by owning, you have an investment you can use as collateral.

Homes appreciate in value, especially in steadily growing communities. And, you can actually reduce your house payment when interest rates fall, by refinancing. You can't say that about renting! In fact you can count on your rent increasing annually and in some cases semi-annually.

Owning a home

Home ownership is a highly leveraged investment that can yield substantial profit on a nominal front-end investment. However, there can be costs incurred in ownership versus renting. Such as the down payment, maintenance costs and yearly tax payments. But again, these costs are being applied to an investment. At the end of the day, if you rent, you pay until your lease ends with nothing to sell. In ownership, the money you spend goes towards your profits from appreciation in the value of your home.

Did you ever wonder how some people afford such expensive homes? Chances are that may be their second, third, or even fourth home! Don't be discouraged if you can't afford the house you want the first time you buy. Make sure the area is right and you buy a house that fits your needs and budget. Buying at or below your price range allows you to use the extra money to do home improvements. Then in a few years time you can put the house up for sale, sometimes at a ten to thirty percent profit. You can then take that profit and put it towards your next home -- bigger, newer and so on.

As for evaluating the risk in buying a home, do your homework. Take some time to investigate the communities you are interested in, at least a few months in advance to buying. Make sure you look at the growth of residential and commercial building. Look into the school systems to make sure they are right for your children. By spending time in your desired communities before hand, you can make an informed decision regarding whether or not the community is right for you and your family. Don't make the mistake of buying in an area where the housing and property are more expensive in hopes of increasing your profit. More money spent on a property up front does not guarantee you an increase in property value over less expensive communities. Don't be in a hurry to just buy a house. Buy the right house; remember you may be there a very long time. By utilizing your real estate agent's expertise and experience, you can find the house that is perfect for you.

Buying vs. Renting

Is buying better than renting? It depends on whom you ask.

If you question your financial planner, she'll probably assert, "Yes!" and pull out a spreadsheet showing the investment and tax advantages.

If you ask a globetrotting couple you know, they'll probably disagree with her emphatically, arguing that a home will leave you little time or money for recreation.

The truth is, buying a home is a highly individual decision, dependent on a variety of lifestyle and financial factors. Ask yourself these questions to help determine if it's right for you:

How long do I plan to stay in my current community?

Homes take time to appreciate in value. If your employer's hinting around at relocation, or the walls of your small town are closing in on you, consider that you might only break even - or even take a loss - if you have to sell your home quickly.

If your job situation seems secure, however, and you enjoy the amenities your community offers, buying is a next logical step.

Do I have time to maintain a home?

Unless you're currently leasing a house and handling all the maintenance yourself, home ownership will generally require more of your time than renting. Of course, for some homeowners, the associated work - raking leaves, mowing the lawn and painting the family room - serves as recreation in itself.

Some buyers will purchase a condominium in order to avoid time-consuming outdoor chores. If you're looking at that option, be sure to factor in property management fees in your housing estimates.

Can I afford it?

Most renters assume that buying costs considerably more than renting, but you may be surprised. First, if you consider the monthly total on your rent, utilities and renter's insurance, you might be paying more for housing than you thought.

Second, even if you don't have tens of thousands saved for the standard 20 percent down, many lenders today offer lower down payment options. Some will even finance your closing costs. Remember though, the more you finance, the more your monthly payments will be.

Do I want to personalize my living quarters as I please?

Maybe you've grown tired of the eggshell white walls of your cookie-cutter apartment, or you can't convince your landlord to replace the brown shag carpeting in your rental. When you own your home, you can mostly do with it as you please - paint the kitchen in Green Bay Packers gold, cover your den in knotty pine paneling or wallpaper your bedroom ceilings in Laura Ashley florals. True, it all costs money - but when you buy your own place, it's a choice you get to make.

Buying A Second Home

Buying A Second Home - Living The Dream

It used to be that most people didn't buy a second home until they sold their first one. But times have changed and more and more people are realizing that it might make more sense than they had originally thought. There are a couple main reasons why people buy a second home, to get away from the day-to-day stress now or in some cases later, by saving it for retirement. And the other reason is the investment opportunities. Whatever your priority, be it peace of mind, or financial gain, or both, for that matter. Owning a second home may be the right choice for you and your family.

There are so many tax advantages, you may not be aware of all of them. You can write off 100% of the mortgage interest, and you can write off property taxes. New IRS rules allow for a capital gain on the principal residence whenever people sell. Up to \$250,000 for singles, and up to \$500,000 for couples. Living in your second home for two years or more, entitles you for the same capital gains break. If the return on your investment bears more than the bank interest will pay you, then you just made a smart investment.

Another thing to consider is that you have the option to rent in order to cover your second mortgage. You need to decide if you are going to declare it as a vacation home, or rental property though, because the IRS has different rules for both. Also remember that if you declare it as a rental your mortgage could be slightly higher. So the benefits include tax breaks, a getaway for the family on vacations or holidays, a future retirement home, renters making your mortgage payments for you, or just a smart investment. On the downside, there is a second house payment, potentially higher mortgage if declared as rental property, and some hassle in upkeep involved. Just make sure to look at all your options and every angle to see if this is the right move to make for you.

Ready To Be A Landlord? - Finding A Great Rental Property

Think rental property might make a good investment? It can -- if you choose wisely!

Just as with any real estate purchase, location counts! Your best bet for a solid rental property will probably be in an established, high-demand rental area, with easy access to schools, universities, shopping, and other amenities. Avoid "white elephant" buildings with an unusual design or location, or isolated units stuck out in the boondocks. Look for a location that you would find attractive if you were renting.

Once you select a general area, you'll need to decide whether you prefer single-family homes or multi-unit apartments. Both can make good rental properties, though there are some important differences. Single-family houses are often in shorter supply as rentals. And because they're more desirable from a tenant's standpoint, they generally command a higher rent per square foot than apartments. A single-family home will also have a broader resale appeal when it comes time to sell. But it will be harder to buy a single-family residence at a price that allows you to break even or generate a positive cash flow unless you're prepared to invest a hefty amount down.

Multi-unit apartment buildings, by comparison, may experience a somewhat higher turnover rate than a single-family house. But they are often priced to allow you to generate a close-to-break-even cash flow with a smaller down payment.

Thinking seriously about a particular property? Run the numbers carefully before you decide to

buy. Ask the seller for information about the building's vacancy rate over the last 2-3 years, and factor in anticipated vacancies when you estimate cash flow. Be sure to include a reasonable allowance for maintenance. Copies of recent maintenance records can tell you not only what has been done to the building lately but also what hasn't.

TIP: For multi-unit buildings, make sure you're given the opportunity to inspect all units personally before closing, not just a "representative" apartment.

TIP: During the walkthrough, ask current tenants if any repairs need to be done to their unit, and listen to any complaints about maintenance. Unless they're fixed before closing, these are things you can expect to hear about later!

Tips For Every Buyer

Key Factors For Making A Good Investment

Choosing between a smaller home in a more affluent area, a bigger home in a more working-class neighborhood, or building new is not always an easy decision. If you're in this situation, start by examining your priorities and asking yourself the following questions:

- Is the surrounding neighborhood or the home itself the most important consideration?
- Are both neighborhoods safe?
- Is the quality of the schools an issue?
- Does either area have more families with kids or adult residents?
- Does either house need more home maintenance or improvements than the other?
- Is the area zoned all residential, or does it include commercial or industrial?
- How far is the area from your job -- is commuting an issue?
- For parents, is the area child friendly? (Sidewalks, safe playgrounds, etc.)

As for the return on your investment, home-price appreciation is hard to predict. The economy plays a big role in what can happen. Most homes hold their value, but in a recession, the value may stay the same, as opposed to increasing like in strong economic times. Obviously the communities that are the most appealing generally tend to have the best return on investment. The value goes up because everyone wants to live there.

Be sure to find a place that best suits all of your needs, or at least the most important ones. The area and schools may be your priority. Or maybe it's the size of the house, because of kids or live-in relatives. Whatever your situation, you need to make informed decisions that are right for you and your family. Make sure to consider all the facts before you buy.

Getting The "Real Scoop" On The Houses You're Looking At

Everyone wants to make sure the car they buy is not a lemon, and that is doubly true when it comes to buying a house. If you are buying a pre-owned home, you can only hope that all of the previous owners before you took care of the house, using the proper methods.

To set your mind at ease, and to make sure you are not getting a bad deal, home inspections, seller disclosure requirements and the experience of your professional real estate agent will all help to safeguard you. Disclosure laws vary by state, but in some states the law requires the seller to complete a real estate transfer disclosure statement. The following are some items you can expect to see on a **disclosure form**:

- Range oven, microwave, dishwasher, garbage disposal, and trash compactor.
- Safety features: burglar and fire alarms, smoke detectors, sprinklers, security gate, window screens and intercom.
- TV antenna, satellite dish, carport or garage, automatic garage door opener, rain gutters, sump pump.
- Amenities such as pool or spa, patio or deck, built in barbecue and fireplaces.
- Type of heating, condition of electrical wiring, gas supply, and presence of any external power source, such as solar panels.
- The type of water heater, water supply, sewer system or septic tank.

Sellers are also required to indicate any significant defects or malfunctions existing in the home's major systems. The checklist specifies interior and exterior walls, ceilings, roof, insulation, windows, fences, driveways, sidewalks, floors, doors, foundation and electrical and plumbing systems.

The disclosure form also requires sellers to note the presence of environmental hazards, walls or fences shared with adjoining landowners, any encroachments or easements, room additions or repairs made without the necessary permits or not in compliance with building codes, zoning violations, citations against the property and any lawsuits against the seller affecting the property. (If you are looking to buy a condominium you should be informed about code and deed restrictions.)

Make sure to look for or ask about settling, sliding or soil problems, flooding or drainage problems and any major damage resulting from earthquakes, floods or landslides.

The amount a seller is required to disclose about defects has broadened significantly over the years. It helps to protect the buyer from buying a cosmetically good-looking house that is a potential money pit. But even with all the forms and laws in place, make sure to ask a lot of questions. Especially if you are unclear about something, or if your concern was not addressed on the forms provided to you.

True Gem Or A Diamond In The Rough? - Why You Need A Good Home Inspection

Appearances *can* be deceiving! That's why it's important to hire a trained set of eyes to help you uncover problems that otherwise might go unnoticed. A professional home inspection can help disclose a wide variety of common defects of a property including:

- Signs of settling or foundation defects
- Improper drainage
- Plumbing leaks
- Roof leaks
- Improper wiring or other safety issues
- Rotted wood in eaves and trim

While home buyers order most inspections as part of their pre-purchase investigation, sellers and homeowners too can benefit from a home inspector's services. A seller, for example, may want to determine what repairs he needs to make before putting a home on the market. And conscientious homeowners may simply want to make sure that needed maintenance on their home isn't being overlooked.

To find a reputable home inspector in your area, ask your local REALTOR® for a recommendation -- or three! Before choosing a home inspector, ask to see a copy of a recent

report he or she has prepared on a similar property. Read the fine print carefully to determine what (if any) warranties are being made and what matters will be excluded from the report.

TIP: The home inspection field is still an "emerging" industry, and certification requirements (if any) vary from state to state. Before hiring an inspector, be sure to ask about their length of experience and credentials. Two of the largest national organizations that certify home inspectors are American Society of Home Inspectors (ASHI) and National Association of Home Inspectors (NAHI).

TIP: If a home inspection discloses structural issues or other specialized concerns, you may wish to obtain additional inspections or professional advice -- a separate roofing inspection if roof leaks are suspected, for example, or an engineering report if slippage or other structural issues are raised. It's important that you understand the exact nature and extent of any serious problem before you buy!

Home Warranties - Five Facts To Consider

When you buy a home, there are lots of things to worry about. Is the furnace in good condition? Is the hot water heater on the verge of a breakdown? Is the electrical system up to par? While a professional home inspection can help set your mind at ease, a Home Warranty goes a step further and guarantees your peace of mind -- or does it?

Here are five facts to consider about Home Warranties:

- They are fairly inexpensive. For a few hundred dollars, you can get a year of protection. The seller may be willing to pay for a Home Warranty to seal the deal, particularly if the home is getting up there in years.
- They usually involve a deductible or a service fee. You'll want to know what this amounts to, ahead of time. Of course, keep in mind that you'd pay a service fee plus the repair costs if you didn't have a warranty on your home.
- They vary quite a bit in their coverage. Some plans only cover your heating, plumbing and electrical systems. Some cover everything from your furnace to your doorbell. If the home seems to be in pretty good shape overall, you might want to go with a basic plan. If you want to know you're completely covered, look for a plan that includes everything from top to bottom.
- They require you to use certain service providers. Ask who this would be in your area, and check out their credentials by contacting the Better Business Bureau or by asking for references. After all, you want your repairs to be done by qualified people.
- They typically allow you to request service 24 hours a day, 7 days a week. This is an important consideration, since major appliances don't necessarily choose convenient times to break down.

Your Home Warranty contract should spell out all of the above considerations in great detail. If you're unsure about anything, ask!

A Home Warranty is often a great idea, since your homeowner's insurance won't cover repair costs for appliances. Particularly for an older home, a complete, head-to-toe warranty gives you a worry-free first year, and you may be able to extend the warranty for additional years after that.

Ask your REALTOR® for advice on a Home Warranty. He or she can probably recommend a plan to fit your needs. Then you can sit back, relax and enjoy your new home!

Financing Tips

Saving For A Down Payment

Let's see. You could win the lottery, kill off your rich uncle, or marry a millionaire. But there may be a better way!

Set a goal.

It's easier to start saving if you have a specific goal in mind. Sit down with your REALTOR® and discuss your budget and expectations. Be honest and realistic. You won't get a \$500,000 home if your income is \$35,000 a year. Decide how much you can afford to spend on monthly mortgage payments, and how much cash you'll need for your down payment and closing costs.

Then make your goal tangible! Cut out pictures of homes and put them on the fridge. Carry a picture of your dream home in your wallet. When you're tempted to splurge on something else, you'll have a reminder of your goal right in front of you.

Make a plan.

To reach your goal, you'll need discipline and determination. You'll also need a budget. Don't moan and groan, it won't be that bad. Get out a pencil and some paper, and make two columns: income and expenses. Now write down how much money comes in, and what it's spent on. It's a good idea to track all your expenses in detail for a month or two. You'll end up with a good idea of where your money is going, and where you might be able to cut back.

Part of your plan should include paying off credit cards and other debt. It would be a shame to have your down payment saved up, and then to be turned down for a mortgage because you're carrying too much debt.

Get some help.

There are lots of programs out there to assist first-time homebuyers. Your REALTOR® can help guide you to federal, state and local programs that may offer reduced down payments, low-interest down payment loans and other advantages. If you're lucky enough to have relatives who can help, remember that you can accept up to \$10,000 each year as a gift without having to pay any taxes on it.

Use your investments.

This requires careful planning, and you may want to get some professional advice on the ins and outs of tapping into your investments. If you're thinking of cashing in some long-term investments, there may be fees, penalties or other charges involved; and you'll need to carefully consider the impact on your retirement years. It's tempting to take money out for a worthwhile goal like buying a house, but it's very hard to put that money back in.

You can do it!

You might have to tighten the old proverbial belt and give up life's little luxuries for a while, but it's well worth the sacrifice to get yourself into the housing market. Once you own your first home, you'll be on your way to building equity, increasing your net worth and enjoying the American dream.

What Are They Talking About?

Mortgages 101

Jim and Jenny are buying their first home. They have enlisted the help of a terrific REALTOR®, they've made an offer on a lovely house in a growing neighborhood, and they are now sitting down with a mortgage lender to discuss some nuts and bolts. Let's listen in:

Mortgage Lender: "Well, congratulations Jim and Jenny! Based on your debt-to-income ratio, we should be able to approve you for a loan. I'd suggest that you amortize over 30 years, with 2 points and an escrow account for taxes and insurance. You'll need PMI, so you might want to go with an ARM. Or we could offer you a balloon reset mortgage. What do you think?"

Jim and Jenny: [blank stares]

Some mortgage terms you'll need to know

In order to make the best choices for your next mortgage (and impress your friends and family), you need to understand some basic terms. If you still have questions, don't be afraid to ask questions. Your REALTOR® and your lender will be happy to provide more information.

- **Amortization:** This is a detailed breakdown of your payments over the life of the loan. An amortization table shows you how much of each payment goes to principal, and how much goes to interest.
- **Adjustable Rate Mortgage (ARM):** This means that your rate will vary from year to year. Adjustable rate mortgages generally start out with a lower rate than fixed-rate mortgages, so if you plan to stay in a home for just a few years, this might be the way to go.
- **Escrow:** These accounts are used to "hold" money. In the case of a homeowner, they're used for tax and insurance payments until the payment is due. Banks and mortgage companies like this arrangement, because they have control over these payments and can make sure they're made on time.
- **Points:** When you're shopping for a mortgage, you'll be quoted different rates depending on how many points you want to pay. One point equals one percent of your mortgage amount. So, if you were mortgaging \$100,000, a point would be \$1,000. When you pay points you are paying some of the interest on the loan ahead of time, so you'll get a lower interest rate.
- **Private Mortgage Insurance (PMI):** This will be added on to your mortgage payment if you're putting less than 20% down. In the old days, you'd be stuck paying this forever, but new regulations require lenders to cancel it when your mortgage balance drops to 78% of the original purchase price of your home.

Get The Scoop On Your Credit Report

What's in it, and why you should care.

Joe and Jenny were very excited about buying their first house. They had saved for a down payment, decided on the perfect neighborhood and found a wonderful REALTOR® to guide them to the home of their dreams. But when they applied for a mortgage the bank turned them down, saying they had too much available credit and too many late payments.

Jim had a stressful experience when he tried to buy a new car. At the last minute, he was told he didn't qualify for a loan because he had declared bankruptcy three years ago. Jim, who is

single, was also told that his "wife" had a recent criminal conviction and his mortgage payments were three months in arrears. This was all news to Jim, who had no wife, no mortgage payment - and now, unfortunately, no new car.

How do these things happen? How do financial institutions find out all this information? And what can you do if their information is wrong?

Your financial history is constantly being tracked by at least three major credit bureaus: Equifax, TransUnion and Experian. These companies store all kinds of information, and share it with other companies including financial institutions, insurance companies and employers.

What kind of information is included in my credit report?

- Any credit that has been extended to you in the past seven years, even open lines of credit that you do not currently use;
- Bankruptcy information, which is held for 10 years;
- Your repayment history, including which payments were late and how late they were made;
- Information on arrests and criminal convictions

Joe and Jenny ran into trouble because they had several open lines of credit, totaling tens of thousands of dollars. Even though they had not actually borrowed large sums of money, the bank saw this as a potential drain on their budget, especially considering their less-than-perfect payment history, and rejected their mortgage application.

How can I get a copy of my credit report?

You should check your credit history about six weeks before applying for a car loan, mortgage or job. In fact, it's a good idea to get a copy of your credit report about once a year so you can check it for accuracy. If Jim had done this, he could have straightened out his "identity crisis" before applying for a loan.

To obtain a copy of your credit report, call all three credit bureaus or apply through their web sites:

[Equifax](#)
(800) 685-1111

[TransUnion](#)
(800) 888-4213

[Experian](#)
(888) 397-3742

If you have been denied credit, employment or insurance within the past 60 days, you are entitled to a free report. Otherwise there is a small charge.

What if I find a mistake?

If your credit report contains errors, write a letter to the credit bureau and also to the company or lender that made the mistake. Include copies of documents that support your claim. Send both letters by certified mail, return receipt requested, and keep copies for your records. It may take time, patience and persistence to straighten out mistakes on your credit report. But in the long run, it's well worth the effort.