



Special Report:

# “48 Essential Real Estate Tips”

A helpful guide for saving *Time, Money and Frustration* when finding, buying, or selling real estate.

Prepared for you by...

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# **Not Knowing the Following Information Could Cost You Thousands, and Possibly Tens Of Thousands Of Dollars On Your Next Real Estate Transaction**

It's true. Even savvy home buyers and sellers lose thousands of dollars...even tens of thousands of dollars they could have "pocketed" had they know about the important "secrets" that make up the successful purchase or sale of real estate.

They don't lose money because someone took advantage of them. And they don't lose money because of the economy. They lose money because of the lack of good information.

## **“Knowledge Is Power”**

This statement was never more true than with the sale or purchase of a home or other real estate. This is truly a case of “what you don't know can hurt you”. The purpose of this guide is to provide you with information; information that can help you to make smart decisions in your next real estate transaction. This is information that can very well help you to save money when buying and make money when selling your next home or other real property.

So, let's take a look at some of the critical questions that you might have with your next real estate transaction...

### **1. What is an "as is" sale?**

An "as is" property is sold without a warranty as to condition, repairs, or structure. With an "as is" sale, the buyer is on notice that the seller makes no promises regarding the property's physical status. With an "as is" sale, it can be quite difficult to make a claim against a seller if something is found to be wrong with the property after closing. "As is" clauses should be seen as an absolute requirement to make the transaction contingent on a professional inspection "satisfactory" to you. With a properly written purchase agreement contingency, if you are not satisfied with the home inspections, then you can terminate the transaction and get your earnest money back.

### **2. How long must I live in a house once I buy?**

When you apply for a loan, a lender will ask if you intend to use the property as a primary residence. If the answer is "yes," then it is expected that you will physically move into the property and live there for some time. There does not seem to be a set definition in the term "some time," but what lenders are getting at is this: They do not want to make residential loans with low rates and little down to investors.

Thus, if someone gets a residential mortgage, instantly moves out, and quickly rents the property, lenders will be more than unhappy - they may “call” the loan due and payable. They may also review the loan application to see if fraud was involved. Lenders do not want borrowers to move in and then rapidly move out, but they will look at the "facts and circumstances" if such an event occurs. For instance, a sudden job change not known in advance might be a valid reason for a move after several months of occupancy. What lenders do not want are situations where a "residential" borrower is actually a disguised investor. Given that most homes are occupied for about 6 years, a move after several months or a year is likely to set off bells to the lender.

### **3. Can I buy real estate with no money down?**

Yes. Millions of people have bought real estate with no money down through various loan programs, seller financing, etc.

If you mean, can you buy real estate at a discount of 20 or 25% with no cash or credit, and then instantly sell or rent the property at a profit, then the answer is probably not. Why "probably" instead of "absolutely" not? Because in a marketplace with millions of transactions each year, somebody somewhere has made a deal with no money down and rented or sold at a profit. But it is also true that somebody somewhere got hit by lightning. The problem is that the term "no money down" is that sometimes, in the worst cases, it's another term for a deal where a buyer without cash or credit wishes to buy property from someone who is needy, unsophisticated, desperate, in mourning. etc. Under the guise of "helping" the owner, buyers offer to purchase property at 20% off or more of the asking price, and with subordination and substitution clauses. Of course, if purchasers really meant to be helpful, they would surely pay full market values to help these challenged sellers out.

Rather than get-rich-quick tapes and seminars, people interested in real estate investing should work closely with a REALTOR® who specializes in investment properties. This agent can be your "eyes and ears" and make recommendations on properties that can be good investments.

### **4. We made an offer on a home that was about 5% below the asking price. Our offer was rejected. What can we do to make the sellers more reasonable?**

It's possible that the sellers are being reasonable. They have established an asking price for their home. If they can get that price within a reasonable time frame, then they have logically priced their home for a given market. If the price cannot be obtained, either they will lower the price or the property will be withdrawn from the market.

Whether you're buying or selling, your agent should always put together a CMA (Comparative Market Analysis) in order to establish the approximate market value of a property that you plan to buy or sell. Only then will you know what a fair offering or fair asking price for a property is.

### **5. What is "Market Inventory" and why is it important?**

"Market Inventory" is just another term for "Supply and Demand". Whether you're a buyer or a seller, it's crucial for you to know what the market inventory is in your area. An average inventory of homes is about 6 months. This means that based on current buyer demand, if no more homes came on the market there would be enough inventory to last 6 months. If the inventory is lower than this (i.e., fewer months) this shows that housing demand is greater than supply and can indicate a "seller's market". If home inventory is more than this (greater than six months supply) it points to more supply than demand, or a "buyer's market".

Market inventory can be a strong indicator of what you should be offering as a buyer or asking as a seller for a property. A good agent should always be able to provide you with information regarding the current market inventory in your area.

## **6. We are handy and want to buy a house using "Sweat Equity" for a down payment. Will lenders go for this?**

"Sweat Equity" can be defined as work that you personally would do to a property that you own in order to increase its value. An example of sweat equity would be a homeowner finishing an un-finished basement, thereby increasing the value of the home.

From time to time you hear about lenders that allow the use of sweat equity as a credit toward a down payment, but not all of it. Most lenders, however, are not thrilled with this concept.

The problem is valuing labor. If a professional paints a house there is work completed to a given standard (that helps maintain the value of the home, the lender's security if the loan is defaulted) and there is a bill for labor and expenses (paint, caulk, etc.).

With sweat equity, there can be a cost for supplies, but how is labor to be valued? Should it be at the same rate as for a professional, at a discount, and what about workmanship?

The best approach is to speak with a variety of lenders to see if they have a program that allows the use of sweat equity. Ask about the maximum sweat equity contribution allowed, total cash needed to close, rates, points, etc.

## **7. Can I discount the sale price of a property to create a down payment?**

Unfortunately, no. Lenders provide financing on the basis of the sale price or the appraised value, whichever is less. In the case of a "discounted" price, say selling a home worth \$200,000 for \$190,000, the sale price is \$190,000. In this case, lenders do not recognize this as a discount.

A better approach is to pay full market value (not *necessarily* full asking price) but to make the transaction dependent on the seller paying some or all of your closing costs at the time of closing. The effect is the same, but the accounting makes more sense to lenders.

## **8. What is a "Due-On-Sale" clause?**

When a home is financed, the borrower agrees to make regular monthly payments. However, if those payments are not made, if they are late, or if the lender's security is reduced (by not making payments, damaging the property, not maintaining insurance or not paying property taxes, etc.) then the lender has the right to call for the complete and immediate (often within 30 days) repayment of the loan. The mortgage language outlining the lender's rights is generally called a "due-on-sale" or "acceleration" clause.

In the state of Montana, if you borrow money from a lender for a purchase of real property under 40 acres, a "Deed Of Trust" will be recorded on your property by the lender. You will receive a copy of this Deed Of Trust at closing. This document describes all of your rights and all of your lender's rights regarding your loan, including the "Due-On-Sale" clause.

## **9. What is a "Contract For Deed"**

When you purchase a home or other real property and borrow money from a conventional lender, even though there will be a loan on the property you still receive a deed. The deed is the document that transfers ownership to you. So while there may be a loan on the property, you have "title" or ownership to the property.

With a "Contract For Deed" a buyer makes payments directly to the seller instead of to a lender. The difference with a Contract For Deed is that the buyer does not receive the deed when the property is initially purchased. Instead, title (the deed) is only transferred to the buyer after some or all of the payments are made, depending on the agreement between the buyer and seller. This protects the seller; since the buyer has not been given the deed, if the buyer defaults on the loan the seller doesn't have to go through the hassle of a foreclosure.

## **10. What are the pros and cons of a "Contract For Deed"?**

A contract for deed may allow a buyer to obtain real estate even if he or she is not able to obtain financing through regular loan channels. For example, a Contract For Deed can be particularly well-suited to young couples who are having a hard time qualifying for a traditional loans. They can also be useful for the purchase of land, since most traditional lenders won't lend on vacant land. For the seller, a Contract For Deed may allow a seller to market a property when interest rates are high.

If a buyer with limited financial capacity purchases with a contract for deed, then a seller may have problems collecting monthly payments. However, since a buyer with a contract for deed does not have title until all conditions are met, it is often possible for the seller to get the property back with a "forfeiture" rather than a "foreclosure." The attraction of a forfeiture for the seller is that it is much quicker to obtain than a foreclosure. It is also a complex undertaking that should only be done with an attorney.

If a contract for deed involves the use of existing financing that cannot be assumed, that could set-off a due-on-sale clause. Both buyers and sellers could lose the property if the loan cannot be repaid.

Or, suppose Seller Jones sells a property to Buyer Smith using a contract for deed. Title will remain in Jones' name until Smith makes a certain number of payments. But, suppose that Jones goes bankrupt. What rights does Smith have to the property? Or, suppose Jones does not pay the property taxes? If the local government forecloses, what rights does Smith have?

Also, what happens if Seller Jones goes off to Tahiti? How does Buyer Smith get title? Contract for deeds should be seen as complex arrangements. Both buyers and sellers should consult an attorney or (separately) to assure that all aspects of the transaction are fully understood.

## **11. What is a "seller contribution?"**

A sale agreement typically includes both a purchase price for the property as well as terms and conditions. It sometimes happens that a buyer will make an offer subject to certain terms, for example, "I'll buy your house but I want to keep the hot tub, washer, dryer," etc.

Another possible term of the contract concerns "seller contributions." For example, I'll buy your house if you will pay the first \$x of my closing costs. Lenders will generally accept seller contributions as part of a transaction providing they are written into the sale agreement, fully disclosed and only represent a limited fraction of the sale price. Different loan programs have different contribution caps. Your lender can provide specific advice.

A seller contribution can be a useful bargaining chip in slow markets - buy my house and you can have a credit of \$x at closing. It's a thought that goes a long way with cash-strapped buyers.

## **12. I'm buying a home. Can I rent out a room to help me qualify for a loan?**

Generally no. Lenders have no assurance that such income will be regular and continuing.

## **13. Is it true that most home improvements will give us a profit when we sell our home?**

This is one of the most misunderstood concepts in real estate. Sellers often believe that home improvements will net them a big profit when they sell their home. In most cases, nothing could be further from the truth.

Appraisers tell us that most home improvements will give the seller anywhere from a 10% to 70% return on their investment. This means that for every dollar that you spend fixing up your home, you will get back from 10 to 70 cents when you sell your home depending on the type of improvement and how recently it was done. Very rarely are home improvements a money-making proposition for a home seller.

So what are some of the most cost-effective home improvements? Fresh interior paint, adding a deck, re-modeling an outdated kitchen and adding a full bath to an "under-bathed" home have the greatest return on investment.

Even though you usually won't make a profit on your home improvements, anything you can do to fix up or improve your property will make it more attractive to buyers and will probably add some value to the property.

## **14. We have stock that has significant value and we think its price will increase. How can we come up with a down payment without selling our shares?**

A home purchase typically requires either a sizable down payment, say 20%, or some form of backing by a third-party, perhaps the FHA, VA, or a private mortgage insurance (PMI) company to buy with less down. With a third-party, loans with 15%, 10%, 5%, 3% and even nothing down are possible. So, one choice is to look for financing with as little down as possible. A second choice is to look at RAM financing - a reserve account mortgage.

With a RAM loan you might get 100% financing. At the same time, you would deposit an asset with the lender, say the stock you do not want to sell. The lender then holds onto the stock until the property has a certain level of equity caused loan amortization (reducing the size of the loan through payments) and, hopefully, increasing property values. The borrower has 100% financing.

RAM financing raises important questions: Who gets the interest on the account? What if the value of the securities declines? How is the new value for the property determined? What is the monthly payment? Is all interest deductible? Mortgage lenders and securities brokers can provide additional information.

## **15. What are the most important factors affecting the sale of a home or other real property?**

Many people are surprised to find this out, but there are only 3 factors that affect the sale of a home or other real property:

### **#1: THE ASKING PRICE**

Far and away, this is THE MOST IMPORTANT factor in the sale of any real estate. An agent should compile a “Comparative Market Analysis” to show a seller the approximate value of their property. The asking price can then be determined based on this market analysis and the timeline that the seller would like to sell within.

### **#2: HOW YOUR HOME “SHOWS”**

The way a home looks, smells, sounds, and feels to a buyer is *crucial* to the success of selling a home. Further, the easier a home is to show to prospective buyers, the more likely it is that it will sell. Of course, this is not a factor in the sale of land.

### **#3: THE MARKETING OF YOUR HOME**

The marketing of any property is very important. The property must be exposed to as many qualified buyers as possible in order to maximize the potential for a sale. This marketing can include the MLS (Multiple Listing Service), Internet, newspaper, magazine etc.

That’s it! The success of selling a home or any other property revolves around just these 3 points. The proper “mesh” of these 3 factors will always result in a successful sale. If one or more of these factors are lacking, the property will either take longer to sell than it should or not sell at all.

## **16. How quickly must a buyer apply for a loan?**

The Montana “Buy-Sell Agreement” requires buyers to apply for a mortgage within a specific time period, usually a few days after the contract is signed. This is a negotiable item, however, and can be any period agreeable to buyer and seller.

This is an important matter because if an application is not made, then a buyer would be in violation of the sale agreement. A violation of the sale agreement, in turn, could be grounds to terminate the agreement with the buyer forfeiting their deposit. Thus, buyers should go through the sale agreement with great care before signing to assure that all obligations are known and understood. This is why it’s so important to work with a REALTOR® when reviewing a sale agreement.

A buyer should provide a letter of pre-approval from the lender to the seller as soon as possible, preferably at the time that their offer is presented to the seller. This letter is not an iron-clad guarantee that the buyer will get the loan, but it’s definitely a step in the right direction.

## **17. Can I buy a house with a cash award from a lawsuit?**

Absolutely - if the money is yours “in-hand”. But, until the lawsuit is finally resolved, appeals run out, and a check is cashed, how does anyone know that there will be money available for a realty purchase?

What if someone contracts to buy a home today with \$20,000 in cash due at closing in 60 days with the money to be generated from the settlement of a lawsuit? And what happens if the suit is delayed? Money at closing is still required and if the buyer does not close there could be substantial damages - and maybe another suit....

### **18. I have poor credit, but my spouse has excellent credit. Can a home be bought by my spouse individually?**

Yes. However, he or she can only borrow on the basis of their income and their credit standing. Together you might have far more income. With your lender's help you'll have to weigh the pros and cons of using only one income and a good credit score against both incomes and a poorer overall credit score.

### **19. What rules prohibit discrimination in real estate sales and financing?**

The Fair Housing Act is the major legislation prohibiting discrimination in real estate. It provides that there can be no offer to sell, rent, buy, or exchange property that contains any preference, limitation, or discrimination based on race, color, religion, sex, national origin, handicap, or familial status, or an intention to make such preference, limitation or discrimination.

This federal law applies to the sale and rental of housing, residential lots, advertising the sale or rental of housing, real estate financing, the provision of realty services, and the appraisal of real property. It also prohibits the practice of "blockbusting", a discriminatory practice where a party is coerced into selling a home to someone of a minority race or ethnic background, then using scare tactics to cause others in the neighborhood to sell at depressed prices.

Other federal laws that offer protection include:

- The Civil Rights Act of 1866
- The Civil Rights Act of 1968
- The Americans with Disabilities Act
- The Equal Credit Opportunity Act

For more information about fair housing in Montana, contact Montana Fair Housing at 800-929-2611 or by e-mail at [mfhzng@montana.com](mailto:mfhzng@montana.com)

### **20. If the appraised value and the sale price of a home are different, what will lenders use when granting a mortgage?**

Whichever is lower. Lenders want as little risk as possible, so they will look at both the sale price and the appraised value and then make a loan based on the lower of the two numbers.

### **21. What is "Buyer's Remorse?"**

With some frequency it happens that buyers often have a sense of remorse after contracting to buy a home. Why?

A home is a very large purchase. Not just in terms of dollars, but also in the sense of status and commitment. And because it is such a transforming event, it naturally and reasonably causes some worries. If you have serious concerns about a property that you've just made a purchase offer on, discuss them with your real estate agent. Otherwise, realize that the feeling of remorse that you may be having are perfectly normal and should pass soon.

## **22. Can I buy a house after a bankruptcy?**

Probably. There are two issues to consider:

First, lenders like to see two years of good credit after a bankruptcy is resolved. However, there are instances where lenders will finance a buyer within several months of filing bankruptcy.

Second, lenders want to know why you have gone bankrupt. There is a substantial difference between a bankruptcy that is caused by reckless financial habits and simple financial disasters a car wreck, medical costs, the plant closed after 30 years, the town was underwater for three weeks, etc. In other words, not every bankruptcy is a by-product of financial negligence.

## **23. What is a "stigmatized" property?**

There are properties that are in good physical condition but may nevertheless present unusual marketing issues. For instance, homes that have been the site of a murder or suicide may become known as "stigmatized" properties. This is a home with a condition that is psychological in nature rather than a matter of bricks and mortar.

The subject of stigmatized houses is complex. While some people may accept a home where a murder or suicide has occurred, others will not. It's interesting to note that under current law in Montana as of this writing, a real estate agent is required by law to disclose any "adverse material facts" (a leaking roof, bad foundation, etc.) regarding a property. However, the same law says that the fact that a property has been the scene of a murder or a suicide is not considered an adverse material fact and therefore is not required to be disclosed.

## **24. What is "Radon" and how does it get into a home?**

Radon is a naturally-occurring radioactive gas. Radon comes from the breakdown of Uranium in the soil and water. This gas works its way up through the soil and into homes, most commonly through cracks and holes in your foundation. According to the FDA, Radon is the second leading cause of lung cancer in the U.S. next to smoking. If you are a smoker, the risk for Radon-related lung cancer is even greater.

The level of Radon in a home is largely a combination of 4 factors:

1. How much Uranium is in the soil?
2. How porous is the soil (sand being highly porous, clay being not very porous)
3. How easily does the Radon enter the home?
4. How tightly sealed is the home?

Certain types of foundation construction may be more prone to Radon entry into the home. Specifically, basements are the most prone to Radon, crawl space construction somewhat less prone, and slab-on-grade the least prone.

The federal government has set the "acceptable" level of Radon in a home at less than 4.0 pico curies per liter of air (a measure of the radioactivity in a liter of air). There is virtually no Radon level so high (sometimes exceeding 200!) that it cannot be "mitigated" with a ducting and fan system to bring it below the 4.0 level. If you are contemplating the sale or purchase of a home be sure that you discuss Radon with your REALTOR®

## **25. What is the difference between a condo and a townhome?**

In general terms, with a condo you technically own the first layer of paint inside the unit and everything within that space. The building, grounds, etc. are owned cooperatively by all of the owners of the condominium association. Also, there are usually “association dues” with condos. These dues can cover necessary exterior repairs, grounds maintenance, structure insurance, etc., but vary from association to association.

Conversely, townhomes are more like attached homes. You own the roof, the walls and the lot that the townhome is on. Beside these technical differences, townhomes can be easier to finance than condos since ownership and maintenance of a townhome is virtually identical to a traditional home which lenders have extensive experience with. In the case of a condo, the ownership is less clear making them potentially more difficult to borrow money on.

With a townhome, since you actually own the lot that your unit sits on, you may have more flexibility regarding fencing, a garden, pets, etc. as compared to a condo. However, since you are responsible for all exterior maintenance in a townhome, this can create its own set of problems. For example, what if you feel that the roof of your townhome needs replacing, but your neighbor with the adjoining roof does not. What happens then?

Some people believe that a townhome must be worth more because you actually have ownership of the structure and the lot. However, this is not the case- all other things being equal, there is no value difference between a condo and a townhome.

## **26. What is “Earnest Money”?**

Earnest money is a deposit made by a buyer when they write a purchase contract to buy real estate. The earnest money accompanies the offer to the seller as a sign of good faith.

For example: a buyer makes an offer to purchase a home. With the offer is a \$2,000 deposit called the “earnest money”. That earnest money is usually held by a real estate broker or escrow company in a trust account. This earnest money is typically applied as a credit to the buyer at closing. If the sale does not close, however, then several alternatives are possible:

The earnest money may be returned to the buyer if the buyer is within their rights as defined in the purchase agreement. Or, the buyer and seller may agree to give the money to the seller to resolve claims that the buyer did not perform as agreed under the sales contract. Sometimes, the buyer and seller may dispute how the earnest money should be distributed. In this situation, the funds are often turned over to a court where the buyer and seller get to “battle it out” over who will receive the earnest money.

## **27. How can I avoid paying income tax when I sell my home?**

Under tax law in effect as of the writing of this guide, you may be able to avoid paying taxes on the capital gains (profit) from the sale of your home if you meet the following criteria:

1. You have owned and used the residence as your principal residence for a total of 2 years or more during the 5-year period ending on the date of closing the sale or exchange of this property.
2. You have not sold or exchanged another principal residence during the 2-year period ending on the date of the sale or exchange of the residence.
3. No portion of the residence has been used for business or rental purposes.
4. At least one of the 3 following statements applies:
  - a. The sale or exchange of the entire residence is for \$250,000 or less OR...
  - b. If you are married, the sale or exchange of the entire residence is for \$500,000 or less, and the gain on the sale or exchange of the entire residence is \$250,000 or less OR...
  - c. You are married, the sale or exchange is of the entire residence for \$500,000 or less, and (a) you intend to file a joint return for the year of the sale or exchange, (b) your spouse also used the residence as his or her principal residence for a total of 2 years or more during the 5-year period ending on the date of the sale or exchange of the residence, and (c) your spouse also has not sold or exchanged another principal residence during the 2-year period ending on the date of the sale or exchange of the residence.

Please check with your tax advisor or CPA for further information about how you may be able to avoid or reduce paying taxes on the sale of your home.

## **28. How can I buy real estate with my children using "shared equity?"**

Shared equity is generally seen as a way that families can buy real estate together. The children live on the property and get the benefits of property usage and ownership tax advantages while mom and dad get an investment write off equal to their proportional interest. (Shared equity arrangements, incidentally, can also be among friends, relatives, or business partners.)

Under a shared-equity arrangement, if you own half and your children own half, you must pay half the mortgage, taxes etc. The children must pay their half, plus they must pay a market-rate rent for your half of the property in order for you to have a deduction. However, once they have paid, you may be able to give them a gift equal to some portion, or maybe all, their rent. Be sure to check with your tax advisor on this.

You will need to work out an equity-sharing arrangement with the help of a local attorney and CPA. A real estate broker can help you find an appropriate property. Both you and your children will need wills, living wills, and a proper equity-sharing agreement. You will need to understand what happens if your kids are laid off (you are responsible for the mortgage), or if you and your children become estranged. You will also have to consider the interests of any other children you may have.

## **29. How can our family buy real estate together?**

There are a number of choices, including:

1. Equity-sharing deals: These have potential for everyone if a home in poor condition is purchased and the adult child will put in the sweat equity required to fix it up.
2. Partnerships: Family partnerships are common but everyone has to understand their obligations.
3. Corporation: A corporation could be formed, with shares for everyone. The problem here is selling shares in a small entity if someone wants out. All familial arrangements should be based on a written agreement developed by an attorney, wills and living wills for everyone, and advice from a tax professional for each party.

Finally, speak with lenders before making a final arrangement. Some approaches may be easier to finance than others.

## **30. We are buying a home and have a copy of the seller's disclosure form. Should we also get a home inspection?**

A "Seller's Property Disclosure" form is not a substitute for an independent examination by a professional home inspector. A seller may complete a disclosure to the best of their ability, but of course a seller can only disclose problems that they are aware of. There may be "hidden" problems with the home that the seller is unaware of.

Further, the seller's disclosure form may not ask the questions a buyer would want answered. For example, when was the owner last in the attic to check for leaks? When was the furnace last examined? What is the condition of the foundation?

## **31. What is a "CMA?"**

When owners offer a home for sale they logically want the best possible price and terms for their property. By the same token, a home buyer wants to feel like they're getting a good deal or at least not over-paying for a home. The "CMA" is the best vehicle to assure this. A "Comparative Market Analysis" or "CMA" is an estimate of value prepared by a real estate agent that shows recent past sales for properties and suggests a possible asking price or offering price for a property.

The property that a seller is looking to sell or that a buyer is interested in buying is called the "subject property". An agent will attempt to find properties similar in location, size, age, etc. to the subject property that have sold within the last few months. These are known as the "comparable properties". It's crucial that an agent use properties that have sold for their CMA, since this is what buyers have recently paid for a similar property. What buyers have paid is always the benchmark for establishing a property's value, not the asking price of what is currently on the market for sale.

The ability to do an accurate CMA can vary tremendously from agent to agent, based on their experience and ability. Since establishing a property's value is so crucial, be sure that you ask specific questions about how much experience your agent has doing CMAs.

## **32. Is an appraisal required for the sale or purchase of a home?**

No. In Montana, as in most states a seller is not required to have an appraisal done on a property in order to sell it. The only time that an appraisal is required on a home is if the buyer is borrowing the money from a lender. The lender will then require an appraisal in order to determine a property's value therefore protecting the investment (money!) that the lender has invested in the property. It would be the buyer's responsibility to pay for the appraisal.

What about cash transactions? Though an appraisal is not required for a cash transaction, it's a good idea for a buyer to have an appraisal done. This assures that a neutral third party (the appraiser) is validating the price that the buyer and seller have agreed upon.

### **33. Should I sign a "Buyer Broker Agreement" with an agent when looking for a property?**

If you feel that you are working with a competent agent who has your best interests in mind, generally the answer is yes. Why?

By Montana state law (and in most states), unless you have signed a Buyer Broker Agreement with an agent, that agent cannot represent you in a real estate transaction. Additionally, in Montana, a real estate agent is required by law to disclose the various duties that they have to you as a buyer, as well as to the seller and the seller's agent.

Most buyers want to understand what the duties, responsibilities and terms of an agent representing them are. They also want an agent who can represent them and look out for their best interests. That's why once you've found a good agent, it usually makes sense to sign a Buyer Broker Agreement with them.

### **34. What are some of the most important things I can do to prepare my home for sale?**

Without a doubt, the first step is to prepare the outside, especially the front. This is what's known as "curb-appeal", and it's crucial. When buyers drive by your home they make an immediate judgment whether they're interested in your home. The basics are a neat lawn and shrubs, paint in good repair (including trim) and "stuff" (toys, tools, newspapers, etc.) picked up.

Inside, the single most important thing to do is "un-clutter". You're going to be moving anyway, so why not start packing up right now? This is so important. Of course, the cleaner your home is the better, especially the kitchen and bathrooms. A deep-cleaning of the carpets (or replacement if they're worn) is crucial. The smell of a home is especially important- take whatever steps are necessary to insure that your home smells pleasant. A fresh coat of paint inside is always a good idea!

### **35. What is the difference between a "Appraisal" and an "Inspection?"**

An "appraisal" is performed by a licensed appraiser to determine the current value of a given property, usually for the purpose of a buyer obtaining a loan. While an appraiser will make note of a property's condition as it relates to its value, with limited exceptions, they typically will not do a detailed inspection of the condition of the home or its systems.

An "inspection" on the other hand is performed by a home inspector. The inspector will give no consideration to the dollar value of the property. Instead, it is the home inspector's job to check the structural integrity and to examine the various systems (plumbing, electrical, heating, etc.) in the home.

### **36. What is a contract "Contingency?"**

A purchase agreement between buyer and seller typically outlines a series of obligations for each party. Also, a purchase agreement usually has clauses that make the transaction dependent on certain events. Such contract language is a "contingency" and the agreement itself can be seen as a "contingent" arrangement.

For example, a buyer agrees to buy a house if the house appraises for the amount that the buyer and the seller have agreed upon. This is known as an "appraisal contingency". If the house does not appraise for the purchase price, the appraisal contingency may allow the buyer to terminate the contract and receive their earnest money back.

Contingencies should always have an "release date", that is, after a given date the contingency is no longer in force or effect. The words used in a sale agreement outline important rights and terms and should be written and reviewed with great care.

### **37. What items usually stay with a home and which do not?**

In general terms, items that are physically attached to and intended to be part of a home are expected to stay. Example, if there is a built-in dishwasher it should stay - if the sellers take it there would be a large hole in the kitchen cabinets.

Items that stay are called "fixtures", but it is sometimes difficult to determine what is or is not a fixture. Items such as refrigerators, washers, dryers, pot racks, window coverings/blinds, backyard play equipment, etc. are not necessarily understood to stay with a property.

The best approach is to detail exactly what stays with the property and what does not in the Buy-Sell purchase agreement. For details, speak with your real estate agent.

### **38. What is a "Lease-Option"?**

It sometimes happens that a buyer does not want to purchase or cannot purchase immediately, and a seller does not want to sell or cannot sell immediately. In this situation, both parties may want a "lease option" arrangement.

In general terms, a lease option is an arrangement where a prospective buyer moves into a property as a tenant. The buyer has the right to buy the property for a specific price during the option period. The monthly rent is usually equal to the fair market rental rate plus an additional sum. The additional sum is often credited to the buyer at closing, should the buyer exercise the option to purchase. If the buyer does not buy the property, then the additional monthly payments go to the owner.

Lease options contracts should be reviewed by attorneys for each party to the transaction before signing. Also, before entering into a lease option arrangement, speak with lenders to review current financing requirements.

### **39. How Can I Know If A Property Is Good For Investing?**

The first thing to understand about buying investment property is the difference between “Speculating” and “Investing”. Many people think they’re investing, when in actuality they’re really speculating. Here’s the difference:

- Speculating: this means that you are counting on the overall prices of similar properties in a given market going up over time (appreciation), and making a profit from that appreciation when you sell.
- Investing: if you are investing, you are looking at a number of variables in buying and owning real estate, including:
  - Total acquisition costs
  - Cost of financing the purchase
  - Cash invested
  - Rental and other income
  - Expenses
  - Tax advantages

Some people who buy real estate only care about market appreciation (speculators). Some people don’t factor in market appreciation, and are only concerned about the financial performance of the property based on cost, income, expenses, etc. (investors). Other people factor in both the market appreciation and the financial performance of the property. The main point is, know the difference between speculating and investing, and then determine which is important to you when you purchase a property.

A good real estate agent who has experience with investment properties can provide you with a great deal of information and assistance on which properties may best meet your investment goals.

### **40. What is a seller "Take-Back" or "Carry-Back?"**

A seller "carry-back" works like this: let’s say home is worth \$300,000 and has an assumable \$200,000 mortgage. You assume (take over) the mortgage. Instead of taking the remaining \$100,000 in cash from you, the seller instead takes back a note, secured by the property. For example, the seller might take-back a note for \$75,000 if you will put up \$25,000 in cash.

A seller take-back is just like a loan from any lender in that it must be repaid according to the terms and conditions outlined in the note. If not repaid, the property can be foreclosed. The rules that apply generally to mortgages may not apply to seller take-backs.

### **41. Is an owner "Carry-Back" a good way to finance a home?**

For a buyer, such financing is fine as long as it meets the usual standards you would expect with a loan—a competitive interest rate, no short-term balloon note, the right to prepay in whole or in part without penalty, a deed of trust rather than a "mortgage," (so there is a trustee to accept a pay-off in case the owner is not available), etc.

But, since a traditional lender is not involved, as a buyer you’ll want many of the protections lenders require such as a title search, title insurance, appraisal, ATA inspection or survey, a proper deed, etc.

A seller carry-back should always be prepared by a real estate attorney.

#### **42. Does it make sense to buy real estate for cash?**

Here's the best answer to this question: Is there a better place to put your money? Is there an alternative investment that will produce like returns with equal risk? Is it simply more comfortable as a matter of personal preference to pay cash?

The decision to pay cash or not pay cash includes both economic considerations and personal choices. Many people simply prefer a home that is free and clear of all debt. There are several advantages that can be obtained by paying all cash. There is no mortgage application and no need for private mortgage insurance. However, there is also no mortgage interest to write off.

If you elect to pay all cash, be sure to insist on the protections that a lender would want; a title inspection, title insurance, ATA inspection or survey, appraisal, etc. It may be worthwhile to sit down with a tax professional or a fee-only financial planner to review the consequences of paying all cash or financing.

#### **43. Must I physically attend the closing of the sale or purchase or property?**

No. The purpose of closing is to assure that all requirements of the lender (if any) and the sale agreement have been met. The closing papers need to be signed by all parties to the transaction and notarized. However, the signing process need not be done at the closing table. If you are not able to physically attend your closing, the person handling your closing should be able to send your closing documents to you by overnight delivery.

#### **44. What is a "walk-through?"**

When you purchase an existing home you enter into a sale agreement at one point but only close on the sale some weeks later. To assure that the property is in substantially the same condition as when the sale agreement was signed, a buyer will "walk through" the property just before closing. If you are a buyer, be sure to allocate enough time for a thorough walk-through.

In the case of a new-construction home, the situation is a little different. Typically there is a walk-through with the builder's representative. Items not completed, or not properly completed, are entered onto a "punch list." The punch-list items are then detailed at closing and the builder is obligated to make required repairs and completions.

When going through a new home, buyers should make their own punch list and compare it with the builder's representative to assure that nothing is missed by accident.

#### **45. Must real estate brokers disclose the fact that they are licensed when they buy or sell for themselves.**

In the state of Montana, real estate licensees must disclose their license status when they buy or sell a property for themselves, for a spouse, or for an immediate member of the family such as a parent or child.

The reasoning behind such disclosure rules is that brokers and salespeople, by virtue of the fact that they are licensed, are presumed to have a marketplace advantage over those who have not studied real estate, passed various tests, and obtained a license. To have a fair playing field, brokers and salespeople must disclose the fact that they are licensed so that consumers know who they are competing against.

## **46. What is title insurance?**

Title insurance is a type of insurance issued by a title company to protect a buyer and/or a lender against claims that may be made against the ownership of a property.

Title insurance deals with the risk of loss that a buyer and/or a lender may incur from claims made against the title of a property that have happened in the past. Some of these title claims can be unpaid taxes, unpaid child support, easements, etc. Since title insurance is there to protect against past claims, most of the title insurance premium (cost) goes into researching the history of claims against the property.

There are two basic types of title insurance:

1. Standard coverage: this covers claims against the property that have been *recorded* as part of the public record. This coverage is usually purchased by the seller for the buyer.
2. Extended coverage: this covers *un-recorded* and other types of claims against the property. This coverage is usually purchased by the buyer. Extended coverage is often an overlooked but very important type of coverage for a buyer to have.

Check with your local title company for more detailed information about title insurance.

## **47. Do people really make millions of dollars buying investment properties with no money down?**

It's a big country and you can be sure that someone will win the lottery and someone will buy a home at a deep discount with "predatory" terms and no money down. The odds in each case are very small.

The essential issue is NOT buying investment property with no money down; it's buying property that makes good overall economic sense (see #39 above). Unless the "numbers" make sense, buying a home with "no-money-down" is usually pointless. The people most likely to make money with these "no-money-down" courses are the ones who sell them.

If you're interested in buying income property, learn as much as you can about how "cash flow" vs. property value affects how good an investment a property may be. There are many books on the subject. Real estate agents, CPAs and/or financial advisors who are experienced with real estate investments can also be a good source of information.

## **48. How should I choose a lender?**

Most people go about choosing a lender *the wrong way*. They call around or check the Internet for the lowest interest rate. While the interest rate of a loan is certainly important, most lenders today are keenly aware that buyers are shopping from lender to lender looking for the lowest interest rate. As a result, lenders all try to be fairly competitive with each other regarding interest rates.

Here's the secret that some lenders don't want you to know: the big difference between lenders are the fees that they charge. Lenders know that everybody shops rates, but very few people understand the fees. You should always ask lenders to prepare for you a "Good Faith Estimate" before you apply for the loan with them. This estimate will outline the fees that the lender expects you will be charged for the loan. If the lender is unwilling to give you a Good Faith Estimate up front, *walk away and find another lender*.

Here are two very important things to know about Good Faith Estimates:

1. Many of the fees that lenders will charge you will be based on how much you're going to put down, how much you're going to borrow and how long you're going to borrow it for (30-year loan, 20-year loan, etc.). If you're going to use the Good Faith Estimate to compare one lender to another, be sure that you use exactly the same down payment/amount borrowed/term of loan for each lender.
2. There are literally hundreds of types of loans available to buyers today. As you compare loans from one lender to another, you'll undoubtedly find that some loan programs have fees that are different than other loans. This is another reason to shop for your loan by comparing fees.

Be sure that your lender explains what each and every fee on the Good Faith Estimate is to you. After you've compared fees and boiled down your selection to a couple of lenders or loans, then you can use interest rates to find out which is the best loan or lender for you. Don't forget to consider your lender's experience and your comfort/trust level with them as a deciding factor in who you choose!

**Bonus Tip #49...**

## **49. Choose your agent very carefully**

The agent you choose can make the difference between an enjoyable, professional real estate experience, or one that is filled with difficulty and stress. Real estate agents are no different than other professionals; some are experienced, hard-working and always keep your best interests first, some other agents simply aren't and don't. How many other so-called "professionals" are dedicated to providing the kind of information in this guide to you and making this kind of effort to better inform and serve you?

As the author of this guide, I can sit here and brag about all the reasons why you should choose me as your REALTOR®, but the truth is...

### **What Others Say About You Is More Important Than What You Say About Yourself**

Wouldn't you agree? Here are some kind words from delighted clients that I've worked with:

"Ken, we just wanted to thank you for the very professional service you gave us... We would definitely recommend you to anybody in need of your services".

Curt & Linda Hanson

"We can't thank you enough for all the effort you put forth in our behalf!... You have been right there to help us whenever we needed you."

Steve & Merissa Hunt

"Ken was great-prompt, good information, kept us posted all the time. Thanks!"

Susan Daniel & Gary Beanland

"Ken is the greatest! He was beside us every step of the way... We will certainly recommend him!"

Bill & Barb Shontz

On the surface, it may seem there are many agents to choose from. But just because there are lots of agents out there doesn't mean they can all do the same quality of work for you.

Please remember...

## All Agents Are NOT The Same!

I hope that you have found this guide informative. I love helping people buy and sell homes, and I believe that providing my clients with helpful information is one of the most important things that I can do.

If you're contemplating buying or selling home or other property, now, in the near future, or just have questions, feel free to contact me anytime.



Wishing you the best,

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