BEGINNER'S GUIDE TO HOME BUYING

LOOK AT SOME OF THE THINGS THIS GREAT RESOURCE COVERS:

- *Understanding your personal financial situation*
- *Determining how much you can spend on a home*
- *Realtors, real estate agents and real estate brokers and what they can (and can't) do for you*
- *Mortgages - how they really work and what it all means to you*
- *Comparing new homes, older homes and foreclosure properties*
- *Making an offer on a home and signing*
- *Home inspections and appraisals*
- *Homeowners insurance*
- *How to close on a home*
- *AND MORE!*

Atlantic Bay Mortgage Group

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Chapter 1: Look at your financial situation

It's safe to say that almost every adult that has lived in an apartment has at some point said I wish I had a home even if it was for a fleeting moment. The truth of the matter is that buying a home can be a scary prospect for some. It's realistic to say that not everyone is cut out to be a home owner. It's much better to find out if you are one of those before you sign a contract and are stuck.

The first consideration is you have to decide if renting is better for you than buying or vice-versa. You have to consider your credit rating first. If you do not have a good credit score and are 620 or below know that you are not going to get a good interest rate for a loan. What happens in a case like this is the bank or real estate representative will quickly hand you over to a loan predator. The majority of bulk lenders are for the most part consumer friendly and do comply with state laws. However make no mistake about it there are lenders who prey on the uniformed and naive people who are desperate because of their credit situation. They tend to take advantage of those who don't know what to look for when it comes to a predator lender.

Just like it isn't advised to buy jewelry from someone that comes up to you on the street there are tell tale signs to let you know this person is not legit. It is recommended that you do not reply to unsolicited market ploys such as:

1. Flyers- thrown on your doorstep; attached to your car windshield wiper; tacked up on a telephone poll, or direct mail from companies you have never heard of.

2. Telemarketers who try and pressure you on the phone

Here are some signs to alert you to a person who may be a fraud:

1. The person is a fast talker

2. They seem like a smooth operator- the person keeps repeating information and it sounds scripted

3. The rates appear unusually high- Have your FICO score (a complex credit-scoring formula that assesses the risk a borrower may default) and compare their rates with other lenders before you decide.

4. The lender is using high pressure tactics to get you to sign immediately- If it's a case of refinancing you have three days to change your mind. If you are buying a home and trying to obtain a purchase loan; you need to ask what will happen if you do not immediately lock your loan rate.

5. You are told that bad credit is no problem- This is a big sign!! Good credit with high FICO scores ensure you to get favorable terms on a loan. Lenders who specialize in offering loans to people with bad credit are called sub-prime lenders. Subprime lenders do not offer good rates.

6. The lender encourages you to lie on the loan and say it is done all the time - You should not sign blank documents nor lie on loan applications because it is against the law to defraud a lender.

7. You are pressured to accept a loan you neither understand nor want - Most people when they apply for a loan have a figure in mind that they feel comfortable with paying monthly as a mortgage rate. DO NOT agree to pay monthly mortgages than you can afford.

8. The lender pretends to care about you but your gut is telling you its pretense - Listen to your intuition, if its telling you something is wrong than that's usually the case.

9. You are being assured that the loan that is being offered is going to fix your financial problems - The only thing that will fix financial problems is not to spend money period. Mortgages are not magical and no one does favors for people in the lending business

10. They tell you only one lender is offering you a loan; they claim no one else will- Get your credit report and talk to other lenders

11. At the closing table all the fees and charges are different from what you initially agreed to pay - If this happens to you, you pull out your good faith estimate (disclosure containing a mortgage lender's "best guess" estimate of all the costs associated with obtaining a loan) and ask for an explanation. Do not stop asking questions until you are totally satisfied with the reason for the differences. If at the end of the talk you are suspicious and not satisfied get up and leave. Do not close the transaction until you speak to a lawyer first.

Lenders consider two factors. These are the two ratios called front end and back end. The front end is your mortgage payment plus taxes and insurance divided by your monthly salary. The back end adds your monthly debt payments to your PITI payment before dividing that total figure by your salary. A 50% debt ratio is a high ratio. A high debt ratio may disqualify you for a loan. An unscrupulous lender may offer to fund the loan and in turn you may not be able to buy food for you and your family and literally have to eat dirt; so beware.

Job security is another factor in deciding whether or not to go the home purchase route. If you do not have a secure job then it is risky to take on the responsibility of a mortgage. If you lose your source of income your option may be foreclosure. Unemployment compensation is rarely enough to cover a mortgage. Another consideration in relation to a job is; is it the type of job that may demand you relocate to keep it? If you have to sell because of a mandatory transfer then you want to make sure that your property is in appreciation of at least 10% to cover the cost of selling the house otherwise you will lose money. When you buy a home the idea is you plan to stay there for a while.

Another consideration when buying a home is upkeep and maintenance costs. It is suggested by experts that you set aside 5% of the purchase price to cover maintenance and repairs when you are buying a home.

Sometimes it is more financially sound to rent instead of buy. For example if your monthly rent is $2,000.00 and the same place costs you $6,000.00 to buy do you really want to buy it after all. That would cost $48,000 dollars more a year to own the same home you are renting. If you are in the 30% tax bracket you may not come even close to recouping the money you paid out. Say your deductible expenses are $5,000.00 a month; 30% of that is $1,500 which is the true tax saving for the month. Why would you spend $6,000.00 to save $1,500.00 a month. You would be putting yourself in deficit.

You have to sit down with a pencil and paper and look at your current financial situation to see if it's realistic for you at this time to buy homes. Look at your current house hold budget and compare it to how you would pay a mortgage. Do some research on current home prices in your target neighborhoods. Real estate prices fluctuate depending on the economy we live in at the time. Buying a home is an investment. You want to make sure you are spending what you can afford for what you want.

Chapter 2: Are You Ready To Buy a Home?

There are many factors that go into deciding how much one can spend in financing their home. The first thing is are you single or have a combined income with a significant other? Many people looking to buy homes are surprised that the home down payment is not the only consideration when buying a house. The down payment is one of a few cash upfront costs necessary for purchasing a home.
You also have to pay at least minimum $200.00 for a home inspection. You also have closing costs which include loan origination fees, up front points (interest that is pre-paid), application fees, appraisal fee, fee for surveying, title search and title insurance, first month's home owner insurance, recording fees and attorney fees. Depending on the location of the home there may be transfer taxes that are assessed. And, finally there are also heating oil and or property taxes that may have already been covered by your sellers as being included in the final cost. All these costs will probably add up to between 3% and 8% of your purchase price.

It is really important that you are familiar with the market before you go diving in for homes. You need to know the prices of the homes in the neighborhoods you are interested in. This will give you a realistic view of how much a house will cost you. This way there are no surprises and you can start to really assess what houses are available for you to purchase within your means. Here is an example of the type of figures you have to come up with to be able to purchase your home (these are figures just as examples of how to go about the process of assessing your budget).

DOWN PAYMENT	This usually upfront cash to put down on the home of your choice	$15,000.00
Total Monthly Payment	(This is your monthly mortgage)	$1,500.00
Term(years)	The amount of Years it takes to pay off the mortgage	30 years
Interest Rate	Cost of borrowing money on a yearly percentage	6.50%
Yearly Property Tax	Real estate taxes paid to local authorities yearly	1.30%
Property Insurance	Home owners insurance	$200.00

So what all this means is that by making a down payment of $15,000 dollars and paying $1,500 a month, you will be able to afford a home that costs $194,189.00. This also means that you need to qualify for a loan of $179.189 to purchase this home.

The total monthly payment would be broken down as such:

Principal and Interest	$1,333.00
Taxes and Insurance	$227.00
Mortgage Insurance	$140.00
Total Monthly Payment	$1,500.00

If this is your first home you may be eligible for a first time home owners loan. That may give you about $7,500 dollars more based on the figures above.

Another way to break down your budget can be as such; Say you and your mate have a combined income of $50,000 dollars a year. This would give them $4,166 dollars a month. Their housing expenses is a ratio of 28% which give them a monthly maximum for a mortgage, taxes and insurance of $1,666 ($4,166 x 0.28 = $1,166)

Now add to this their total debt ceiling which is 36% or $1,583.00 dollars ($4,166 x 0.36 = $1,500.00) Their monthly debts include; a car payment of $200 dollars, credit card payments of $100.00, and student loan payments of $200.00. This adds up to $500.00. You now subtract the $500.00 from the $1,500 dollars permitted which leaves $1000.00 in monthly housing payments.

In addition to mortgage payments you have to consider the additional costs of home ownership. This includes utilities, heat, property taxes, repairs, insurance, services such as trash or snow removal, landscaping, assessments and replacement of appliances and major costs incurred.

Note that condominiums do not necessarily have the same costs as homes. They do however have association fees. Keep in mind that older homes are less expensive to buy but repairs are usually greater than newer homes. When looking for a home always check the actual expenses of the previous owners or expenses of a home that is comparable to the one you want with those in that neighborhood.

You want to make sure you have enough money on hand to slap down a down payment and closing costs with no problems. The down payment is usually a percentage of the property value. The percentage is determined by the type of mortgage you have. Down payments can range according to Freddie Mac Mortgage brokers from 3% to 20% of the property value. Also you may be required to obtain a PMI (private mortgage insurance) or MI (mortgage insurance) if your down payment is less than 20 percent. Closing costs include; points, taxes, title insurance, financing costs and items that must be prepaid or escrowed in addition to settlement costs. Generally you will get an estimation of these costs from your lender after applying for a mortgage.

It is very important that you know before you start looking and applying for a home how much you can afford to pay. The mortgage should be equal or less than one quarter of your income. Keep in mind your credit and debt history are included into how much money they will let you borrow. Another rule of thumb is that your debts such as credit card bills, car loans, housing expenses, alimony and or child support should not be more than between 30 to 40 percent of your gross income.

As I stated before the better your credit is the better a mortgage and loan you will be eligible for. Potential lenders review your credit history. They look at how much debt you have incurred, how many accounts you have opened and if you make your payments on time. It is suggested that you get your credit report from these three companies; Equifax, Experian and Trans Union. If you made any large purchases like a vehicle it can also make it harder to get a home loan. It can definitely lower the amount you will be eligible for.

Chapter 3: Realtor vs. Real Estate Agent vs. Real Estate Broker

We have all heard the terms Realtor, Real Estate Agent and Real Estate Broker. People use the Term Real Estate Agent and Realtor interchangeably. The truth is there is a difference between the two. Although both are licensed "Realtors" belong to the National Association of Realtors. NAR (National Association of Realtors) was founded in 1908 and has over a million members today. A Realtor has to adhere to the Realtor Code of Ethics. For the consumer this means the ethical codes are supposed to be enforced by the Realtor. The ethical codes are 17 Articles including various underlying Standards of Practice.

The Standards that are enforced by NAR (National Association of Realtors) are more restrictive and limits the conduct of a Realtor more than the non affiliated licensed Real Estate Agent. Although there are no guarantees to a person's real ethical behavior it is an attempt to regulate the real estate agents that are affiliated in the industry with a level of ethical behavior.

Here are the 17 things that the Realtor claims to do that the real estate agent may not:

#1) Pledge to put the interests of buyers and sellers ahead of their own and to treat all parties honestly.

#2) Shall refrain from exaggerating, misrepresenting or concealing material facts; and is obligated to investigate and disclose when situations reasonably warrant.

#3) Shall cooperate with other brokers / agents when it is in the best interests of the client to do so.

#4) Have a duty to disclose if they represent family members who own or are about to buy real estate, or if they themselves are a principal in a real estate transaction, that they are licensed to sell real estate.

#5) Shall not provide professional services in a transaction where the agent has a present or contemplated interest without disclosing that interest.

#6) Shall not collect any commissions without the seller's knowledge nor accept fees from a third-party without the seller's express consent.

#7) Shall refuse fees from more than one party without all parties' informed consent.

#8) Shall not co-mingle client funds with their own.

#9) Shall attempt to ensure that all written documents are easy to understand and will give everybody a copy of what they sign.

#10) Shall not discriminate in any fashion for any reason on the basis of race, color, religion, sex, handicap, familial status, or national origin.

#11) Expects agents to be competent, to conform to standards of practice and to refuse to provide services for which they are unqualified.

#12) Must engage in truth in advertising.

#13) Shall not practice law unless they are a lawyer.

#14) Shall cooperate if charges are brought against them and present all evidence requested.

#15) Agree not to bad mouth competition and agree not to file unfounded ethics complaints.

#16) Shall not solicit another REALTOR'S client nor interfere in a contractual relationship.

#17) Shall submit to arbitration to settle matters and not seek legal remedies in the judicial system.

When a person becomes licensed to become a real estate agent (in some states called broker) they have to pass a state exam first on real estate law and practice. To be a real estate sales person the person has to be under the authority of a licensed real estate agent/broker.

If one is a first time home buyer it is advisable to work with a realtor or real estate agent/broker. They know the market and can be a valuable source of information regarding how to purchase a home. Keep in mind however the realtor or real estate agent/brokers allegiance is to the person selling the home and their primary obligation is to the seller not you.

There is an alternative to using a realtor or real estate agent/broker. They are called a "Buyers-Broker. A Buyers-Broker does the work for those who are looking for a home and are is therefore paid by them. The sellers broker is paid by the seller. Buying or selling real estate can be a complex matter. You want to find a realtor with a reputable office that is in your local area. You can always look online for National Association of Realtors and their listing for your area.

The basic rule of real estate is that all properties are unique. They do not even consider to identical houses on the same street as being the same each one is a separate unique property in the real estate world.
Just as homes differ; so do contract terms, financing options, inspection requirements and closing costs. With this in mind no two transactions are the same either. It is better to work with a professional who knows the forms, financing, inspection and pricing and negotiation.

It is not uncommon for a person buying a home to interview several realtors before picking the one they want to work with. When you do interview a realtor consider such issues as their training, experience and representation as well as their professional certifications. Once you pick your realtor you want to establish a good business relationship with them. As I stated before some realtors represent the buyer which is you and some the seller. You have to decide based on the home you want who you are working with. A good realtor will explain options available, describe how they will work with you and provide you with the ins and outs of how that agent works with you in relation to getting the house you want.

Once you hire your realtor they will provide you with information detailing the current market conditions, financing options and negotiation issues regarding your situation. Keep in mind that the market is constantly changing so a negotiation strategy for one possible home may not work with another. Thus the information should not be set in stone and subject to change. While working with a realtor towards buying a home the realtor will keep you informed of the various steps along the way. They will also alert you to a step in the transaction process as it arises.

You want to make sure that the real estate agent/broker has access to the Multiple Listing Service (MLS). This service lists all the properties for sale by most major brokers across the country. Brokerage commissions average between 5 and 7 percent and split between the listing broker and the broker that sells you the home directly. It's not unheard of for a broker to sell you their own listing because then they get the whole commission themselves.

The good thing about realtors/agents/brokers is they take the spam out of the buying process in terms of seeing the potential homes. They keep all the intermediary headaches away from you and weed out the bull crappers from those who want to seriously sell their homes or if you are selling those who want to really buy. The professional realtors/agents/brokers have the inside information on various neighborhoods you might be interested in. They can show you comparative sales and point you in the direction for information for things like schools, crime or the local demographics.

Agents do not select the prices for buying and selling. They will however guide their client to make sure they get the right choice for them. Remember the agent has a 7% vested interest but you have a 93% interest. A selling agent will ask the buyer to weigh all the data supplied to them to choose a price. Then based on the market in terms of supply and demand; the agent will work out a strategy for negotiation.

Another thing that is useful that agents provide is market condition information. This means they disclose the market conditions that govern a person either buying or selling a home. They will disclose information such as the average square foot cost of a similar home, both median and average sales prices, average days on the market and ratios of list-to-sold prices all of which do have a bearing on your decision to buy a home.

Real Estate Agents/Brokers/Realtors do network with other professionals. Many of those professionals are needed in the buying process. Due to legal liability they may not give out a certain individual or company over another. But they do know which vendors are reputable, efficient, serve with competency and have competent pricing. They can however give you a listing of people they have worked with in the past and provide you with background information of the people listed so you can make a wise choice for yourself.

You want to be sure that your Agent/Broker/Realtor has good negotiation skills. Unlike most buyers and sellers, the good professionals are not emotionally involved so they know how to negotiate. They agree to hold the clients information in confidentiality from competing interests also. The Agent/Broker/Realtor has to know how to handle the paper work as well. One small omission could in a disclosure could land you in court for thousands of dollars. In some states lawyers handle the disclosures.

Good agents will stand by you and answer any questions you may have. They want to leave in good standing with you so they can get more referrals. Their incentive is if you are happy you will tell others.

Chapter 4: The Mortgage/Loan

Unless one is wealthy and can buy a house up front chances are you are going to have to take a loan to buy a house. The loan that one gets from a bank is called a mortgage or note in relation to buying a home. The bank that gives the loan to you is called the lender. The money you pay monthly to the bank as a loan payment is called the mortgage payment. The interest rate that is attached to the mortgage loan is called the mortgage rate or interest rate. When you can't make your payments the bank eventually reposes the house (called a foreclosure). When this happens they will sell the house back to you or to someone else who can pay for the money they lost (the money they loaned you plus the money you didn't pay back.)

The number of years it takes to pay back a mortgage to the bank is called the term. In the United States the typical terms are 15 year and 30 terms. The term is how many years they give you to pay off the loan or mortgage against your home so you can own it when the term is up. For those that want the most flexibility, they take a 30 year term. A 30 year term is easier to qualify for and the monthly payments are lower. A 30 year term allows you to build a higher-priced home and allows you to keep your cash liquid. With a thirty year loan you can decide how much extra you want to put towards the mortgage each month. You can also save on the interest this way and pay of the mortgage early by giving the bank a little extra every month. A 15 year loan on the other hand saves a lot of interest in the long run and the loan is paid off in half the time. The down side of a 15 year loan is your monthly payments are bigger whether you like it or not. But if you know you can afford the payments on a 15 year loan and don't trust yourself to make the extra principle payments on a thirty year loan then take the 15 year term. You will save a bundle in interest and finish paying it off in half the time. (There are times when you can get a loan with no down payment. This happens is you have an excellent credit score of 700+.)

When you come to the closing of your business with the bank you will have the opportunity to sign a form which lets the bank take your payment automatically which is more convenient. This is called auto draft. If you choose not to auto draft then it's your responsibility to make sure you pay your monthly note. The bank WILL NOT send you a monthly bill notice.

The bank breaks down the payment of the mortgage as such; part of your payment goes towards the principal (the portion the bank lent you) and the rest towards the interest (this is the bank's profit from lending you the money). So for example when the bank lends you $100.000 dollars you pay that back in addition to the interest rate they charge you.

Your one payment pays for both things and stays the same for the duration of the loan. The banks concern is for them not for you remember that. Over the life of the loan you are realistically paying a lot more than just the interest rate on the loan. With this in mind; when comparing loans from two different banks just a percentage point of two can be a big difference in paying of the interest over the time of loan. Know this; the that first seven years of paying a mortgage back most of that payment goes to interest not the principal. Also on a 30 year loan you are paying around 7% is the mortgage, in a 15 year loan 75% goes towards the interest and not the equity. The bank wants to get theirs, remember that. So in reality after 15 years you own 27% of a house not even half.

Lets now move on to the types of loans that are available. First off know that it is the lender's duty to offer you the loan that fits your situation. There are basically three types of loans; a conventional loan, a FHA loan and a VA loan. A Conventional loan means a normal loan. It's a regular go to the bank and take the loan type of mortgage. A FHA loan is a government loan that is offered to make it easier for the person to buy a home. With the FHA loan the government guarantees part of the loan. If you have trouble and can't pay called “default” the government will pay the bank back. Since this loan is guaranteed it's easier to get. But what happens is the government only pays back after the bank repossess your home. Not all sellers agree to accept this type of loan. That is because there is more red tape with this type of loan. The house cannot be a fixer upper for an FHA loan; it has to be in excellent condition and pass the FHA inspection. There are several FHA loan programs available.

VA loans are loans specifically for veterans. With a VA loan it is possible to put 0% down. Just like FHA loans the VA doesn't actually lend the money. What they do is guarantee part of the loan to make the lenders comfortable with giving someone a loan. A VA guaranteed loan can be combined with second mortgages. In this case the bank will make the main loan the one that covers the price of the home and the seller makes a separate loan to the buyer for the rest of the price. What's good about a VA loan is that the loan can be qualified for a future buyer so your hands are not tied if you have to sell your home. You can sell to anyone not just a VA.

A reputable lender will find out more about you before they start throwing loan options at you. You want to choose a lender that takes enough information about you so they can give you the right loan to suit your needs. Don't be afraid to ask the lender about Fixed rate loans, adjustable rate loans, interest only loans and Negative-amortization loans.

A fixed rate loan is one in which the rate remains the same over the term of the loan. It does not adjust. Most fixed rate loans are what is considered amortized for a certain period of time. What this means is that if the borrower pays their monthly principal and interest every month over the term of the loan; the loan will be paid off by the end of that term.

If the interest rates are low a mortgage lender may try and sell you the adjustable mortgage rate loan. The rule of thumb with FMRs (fixed mortgage rates) versus AMR (adjustable mortgage rates is unless the FMR is above 10% take the FMR. If it is over then the adjustable rate may serve you actually better. Read the fine print on the AMR because AMRs vary and are difficult to understand sometimes. If you don't understand it or what the bank says hold off until you get someone who can cipher it for you. Do not mess up on this one. The foreclosure crisis in 2006-7 was due to high AMRs to begin with and the buyers couldn't make the payments when the rates went up.

Adjustable rate loans are those that interest rates will fluctuate at some point during the term of the loan. It is a method that is used by real property that allows for periodic changes in index rate charges. The interest index rate can increase or decrease depending on the index and margin that is agreed upon.

Interest only loans are made up of interest only payments not the principal. When the loan is due the original balance is due. To compute an interest only payment you multiply the original balance of the loan by the interest rate and then divide by 12. For example: If your borrow $10,000 and your payable monthly interest is 8% for 5 years; you end up paying 66.67 a month and owe $10,000 at the end of 60 months.

A Negative Amortization occurs when the payment is less than full interest and does not pay any principal. The interest that unpaid accrues and the principal owed increases. This is a debt bomb.
An example of this would be if you borrowed $10,000 dollars at 8% interest and paid $50 dollars the first month in 30 days you would owe $10,016.67.

You may have to shop around to find the best mortgages or you may opt for a mortgage broker to suit your needs. But it is worth it in the long run. A mortgage broker is either an individual or company that brings the borrower and lender together for the purpose of a loan origin. They do not themselves lend money or service the mortgage. A broker might negotiate with a lender to try to find the best financial deal for you the borrower. They are an intermediary between you and the lender (bank) but don't use any of their own money to fund the lend.

Keep in mind that banks charge you fees for giving loans. The fee they charge for giving you a mortgage is called an origination fee. These fees come with what are called points. A point is 1% of the loan. So if you borrow $100,000 for a mortgage the bank will charge $1000 for the points. In short points are the charges they give your for giving you a loan. Different banks charge different point amounts and there are those who do not charge for that service. This is good to keep in mind when searching for a loan to suit your needs.

There are those banks that offer discount points. They will work a deal with you, they will charge you one interest rate and then offer another lower one if you pay a certain amount of points. An example of this would be a bank who gives a 7% interest rate and says if you pay a specific amount of points they will lower the interest rate to 6.5% but only after you pay 3 points; 3% of the loan. In reality there is no real way to know which way is the more economical unless you sit there will a calculator and do the math. If you work out the math and for example you have to stay in the tentative home for 5.3 years before the points are paid off, you may want to look at other lender options to compare the points and other things available to you before you finalize your decision.

Chapter 5: The Down Payment

Although no one forks over the down payment as cash in hand, you do need to have that amount available in order to get a home. They are harder to find and harder to qualify for. A down payment on a home can run anywhere from 3% to 20% of the sale price. There are however some cases where you pay 0 down. People with zero down payments as I mentioned before have excellent credit scores of 700 or more. If you are able to qualify for a VA loan then you might be able to get away with a lower credit score for a zero down payment.

The reasons that the banks don't readily offer zero down payment options is because most people who can't pay a down payment for a home also tend to default on their mortgages. There was a study done to show the correlation between no down payment loans and foreclosures. It showed that if the person couldn't afford a down payment that they had either trouble saving for the monthly payments or didn't earn enough to cover it.

The other consideration with no down payment is when you put nothing down then you have higher monthly payments. When there is no down payment you are borrowing more money and that means a higher monthly mortgage. Keep in mind unless you are wealthy, that the less you put down the less the bank is willing to loan you. This means you will have less options available when house hunting for the type of house you really want. With a down payment; any kind of down payment you are able to borrow a comparably larger amount of money. The bigger the loan; the better the chances are for you to get what you want.

When you put nothing down on a conventional loan then you usually have to also get a private mortgage loan as well. The rule that applies for getting a private mortgage loan is when one puts less than 20% down towards purchasing a home; then you have to also get a PMI or Private Mortgage Insurance. The reason they request this of you is that it protects the lender in case you cannot make a payment. As you know if you fail to pay, the lender/bank repossesses your home. The difference is; with a PMI the insurance company will pay the bank the difference between 20% and the amount you actually put down. For example if you put down 5% and default the insurance company pays the bank the other 15% you didn't pay. So when you don't put a down payment down the bank gets protected and you pay for it. What is the benefit for you in this case. You get to purchase a house with putting down less than 20% first. In the past banks wouldn't even consider that as an option. Now with PMI's available the bank will take as little as 5% down for a home loan.

PMI premiums are paid as part of the monthly mortgage. The amount paid depends on the size of one's down payment.

Here is a chart of some typical rates

If your down payment Was:	Divide the monthly mortgage amount by this number to get your monthly cost
5 percent	1500
10 percent	2300
15 percent	3700

Let's say you buy a $100,000 home and put 5% down. Your down payment would be $5000.00 and the mortgage is $95,000. Divide that mortgage by 1500 and you get the monthly PMI cost of $63.00

Remember the PMI is used to protect the lender's from the amount you paid that was less than 20%. You don't need PMI insurance once you have made enough payments to own 20% of your home. They usually cancel automatically once you reach 22%.
In order to cancel a PMI at 20% you have to convince the lender that it is worth the market value you have paid on it thus far. So if you have paid $24,000 dollars towards a $1119,000 dollar home you have to convince them that it is worth &119,000. This is because the 24,000 divided into the $119,000 means you own 20% of your home. In this case you have to pay for an appraisal to prove the worth of the home. When you get to this point it's wise to examine the cost of appraisal against the money you would save by canceling early to see if it is actually worth the hassle.

Chapter 6: How To Qualify For a Mortgage Loan

It's safe to say that you know that banks don't lend money to everyone who wants a loan. Banks like to rest assured that you will pay the loan back with no problems. It's important to have your financial business in some type of order. The four things they look for in order to be willing to give someone a loan are:

1. Enough money for a down payment which is usually 3 to 20 percent of the purchase price

2. Two years of steady employment; it can either be the same job or same field

3. A good (doesn't have to be perfect) credit score which is 660+

4. A monthly income that two to three times higher than the mortgage that you are expected to pay

If you don't have all four of these things right now it's not cause for alarm. You do still have some options available to you. Its recommended that you meet with a lender in spite of your financial situation. Talk to the bank and see if they are willing to give you a loan. Even if you don't get one you will learn what you need to do in order to get one which will help in the long run.

Another option may be a Low-Doc or No Doc Loan. These are loans that do not require a lot of documentation in order to get them. Banks lost a lot of money giving these type of loans out in the past. Low Doc and No Doc Loans carry high interest rates and appeal to those people who are considered high risk borrowers and for people who don't want to expose their financial status. The type of documentation would be for example; the person would state their income but may not be required to provide their pay stubs or tax returns to actually qualify for the loan. Low Doc loans may require a little more documentation than No Doc loans. Of these type of loans the most popular offered is the State Income loan. With the State

Income loan you state your income without proof. It's also called the
NIV or No Income Verification loan. As it states they do not verify your income. No Ratio loans also require no documentation and does not consider your debt to income ratio as a determining factor. Like the other loans it determines the interest based on your credit score. As with No Ratio and No Doc loans you don't even have to say how much you make. The latter two are also called the Don't Ask and Don't Tell Loans. No Doc Loans are also called NINA loans. NINA means No Income No Asset verification loans.

Since these type of loans are risky to the bank the higher interest rates are contingent upon your credit scores. The lower your credit score the higher the interest rate on those type of loan. In addition to your credit score the lenders preference is added to the equation as is specifically what time of no documentation or low documentation loan you are going for. With these loans the premiums range from 0.125 to 3.0 higher over traditional loans.

Here is a chart showing what you would need for the various loans:

	Regular Loan	State Income (NIV)	No Ratio	No Doc (NINA)
Income	You provide proof: ex. paycheck stub; W2 forms	You tell the banker how much you make and they take your word for it	You don't have say how much you make (Don't Ask Don't Tell)	You don't have say how much you make (Don't Ask Don't Tell)
Down payment needed	Relatively small	Small to Bigger	Bigger	Biggest
Credit Required	Fair	Good	Excellent	Near Perfect
Employment History	Yes	Yes	NA	NA

Proof of Assets		Yes	Yes	Possible
Proof of Income	Yes			
Interest Rate	Lowest	Higher (+0.125% to 1% higher)	Even Higher to Highest	Highest (up to 3% higher)

It's good to use a mortgage broker because they represent a lot of different lenders. They will try to shop around to find you a loan. You have to pay a fee but if you can't get a loan it may be worth it. Mortgage brokers can be found in classified ads and the yellow pages as well as on line.

If worse comes to worse maybe a relative or close friend may co sign a loan for you. That is tricky because then they become responsible if you miss a mortgage payment. Another option is to have a family member or friend put the house in their name and you pay all the bills in relation to the house as a renter. After 30 years of making all the payments the house is then put in your name. These may not sound like options that are the best for personal relationships. The person you are asking this of has to have enough faith in you to keep your end of the bargain.

Chapter 7: Closing Costs

Just as you need enough funds for a down payment you also need enough to cover your closing costs when you buy a house. Closing costs are actually miscellaneous fees that are charged by all those who are involved with the sale of a home. These fees include the lender for processing your loan, the title company for handling the paper work, a surveyor, such things as paying your local government office for recording the deed and other things along these lines.

The range for closing fees are varied depending on the home. For example you could pay $6000.00 on a $130,000.00 house. The range can vary from 1% to 8% of the home price. However most closing fees are at around 2 to 3 percent. Make no mistake these fees are significant; especially after coming up with the money for your down payment.

When you do business with a lender be sure to ask them for a Good faith estimate before you do anything. This gives you your ball park figures including your closing estimation. It is the lender that will give a more accurate estimate of closing costs based on a particular house that you have selected for purchase.

Here is a chart of some standard closing costs on loans:

	Fees for a loan of $50,000	Fees for a loan of $100,000	Fees for a loan of $200,000
Loan Application Fees and Credit Report	$75 to $300	$75 to $400	$75 to $400
Loan Origination Fee(1%)	$500.00	$1,000.00	$2,000.00

Points (1% to 3%)	$500 to $1,500	$1,000 to $3,000	$2,000 to $6,000
Title search and (cont) Insurance Fees	$450 to $600	$450 to $600	$450 to $600
Lenders Attorney	$150 to $400	$150 to $400	$150 to $400
Appraisal	$150 to $400	$150 to $400	$150 to $400
Home Owners Insurance	$300 to $600	$500 to $800	$700 to $1,000
PMI	$350 to $675	$750 to $1,500	$900 to $1750
Inspections	$175 to $300	$175 to $300	$175 to $300
Survey	$125 to $400	$125 to $400	$125 to $400
Recording Fees	$40 to $60	$75 to $150	$100 to $200
Transfer Taxes	$75 to $1,125	$75 to $1,125	$75 to $1,125
Buyers Attorney	$400 to $700	$1200 to $1,500	$1,500 to $3,000
Escrow deposit for taxes* (depends on closing date)	$100 to $800	$100 to $2,400	$100 to $3,000
Partial Months Interest(depends on closing date)	$20 to $400	$50 to $1,200	$100 to $2,400
SUBTOTALS	$3,335 to $8,660	$6,125 to $8,850	$9,550 to $22,975
Plus Down Payment	$5,000.00	$10,000.00	$20,000.00
TOTALS	$8,335 to $13,660	$16,800 to $18,850	$29,500 to $42,975

***Remember that real estate practices vary state to state and also from county to county. Basically where you live will determine what you have to pay. Even if you do not have to escrow money for taxes you may still want to put money aside for when you do have to pay the tax bill.**

When you do ask your lender for a “Good Faith Estimate” (GFE) you can compare it to the chart above. You can then ask your lender questions if there are differences in the prices as opposed to the list.

Beware if you use a bad broker and your interest rates are too high the bank will give a kick back to the broker called a Yield Spread Premium (YSP). The way to avoid this is to shop around for your best deal first. If you do see there is a YSP on the GFE you should try and negotiate to lower it first.

If for whatever reason you do not have enough for the closing costs you can do what is called “Roll the Closing Costs into the Mortgage. What happens when you do this is the closing costs get added to the mortgage. So let's say your mortgage is $150,000 and you are rolling the closing costs into it. If your closing costs are $4,000 then they will add that amount to the loan and then the loan becomes $154,000. This is good to do if you are short on funds after making your down payment.

In order to be able to roll the closing costs you need to be able to do a thing or two. One you have to be able to qualify for a bigger loan. If the bank refuses to go beyond that amount you qualified for then you are at your maximum loan qualifier. However it's not impossible for the bank to allow for a few extra thousand on a loan in good faith. The second thing is that the new loan now cannot exceed what is called the Loan-to-Value Ratio or LTV. The LTV is the amount of the loan compared to the value of the house after it has an appraisal. In reality the selling price of the house can be higher or lower than the appraisal. So if you were trying to roll the closing costs into the mortgage they cannot exceed the LTV. For instance, if the LTV of your intended house is $120,000 and the closing cost on that house is $4000; in actuality you can be pushing an $118,000 loan now to $122,000. If this is the case the bank will not let you roll the closing into the mortgage. How you would get around this is make a larger down payment and you and also have to have the extra balance for the closing.

There is another way you can roll the closing into the mortgage. It's called “seller concession” which is a little more complicated than the previous mentioned way. The seller concession way is that you and the seller both say that the price of the house will be about 6% more than the previously said sail price first. The seller then turns around and gives you that 6% that you pay. For example; let's say the price that the seller is selling the house for is $100,000. You put 10% of that down which is $10,000. So you are getting a loan for $90,000 dollars. Now you and the seller decide to do the seller concession. What this means is you now agree that the price for the house is $106,000. That means you put down $10,600 and get a loan for $95,400. When you do this you are getting $5,400 dollars more than the original loan. Now you have enough for the closing.

There are some cases when some seller may agree to help pay some of the closing costs; and times when the lender may pay the closing costs. When this happens the exchange is a higher interest rate usually 0.25% to 0.50% higher. If all else fails maybe a friend or family member may agree to lend you the closing costs.

Chapter 8: The Next Steps

Once you find a lender that you can work with that's qualified you then can get a “Pre-Qual” letter. A “Pre-Qualification” letter is one that state you are qualified to get a loan. This lets realtors and sellers know that you are serious about buying a house. You she get a pre-qual letter from each bank that gives you a loan. Once you get a pre-qual letter you can start looking at houses.

A realtor who works for you is called the buyer's agent. In this case there is no down side for you because the seller pays the agent's fees not you. The primary help that the realtor can give you is help you find a house by searching the MLS. You can give the realtor the zip codes you are interested in and the general specifications you are looking for like; price, size, number of rooms and things of that nature. The realtor can easily find a house that suits your needs by searching the MLS.

The second important thing that your realtor can do for you is to give you a professional opinion about the house you are interested in monetary worth. This can help you from paying too much for a home. This is where the conflict of interest can come in for the realtor. This is because the realtor usually gets 3% of the sales price and the higher the price the more he or she gets.

Although the realtors have the MLS listing, today you can find many listings on the internet if not the publicly available MLS's online. Some sellers also sell by themselves to avoid the realtor fee. These houses are called FSBO's (For Sale By Owner). You can find FSBO's in newspaper classified sections and online on websites like ww.craigslist.com . Realtors won't tell you about houses that are in the classifieds and on line because they don't know about them for the most part, and because they are FSBO's they don't make a commission. Another Advantage by not using a realtor is that there is a real possibility that you can get the price lowered from the seller because they do not have to pay a commission to the realtor. Here is a chart of the Pros And Cons of Whether to use a realtor or not:

With A Realtor	Without A Realtor
Realtors can find houses in the MLS	You have to find a house yourself. If there is an MLS available to the public then you are in luck for that route. If not you have to really hunt. You make luck up or you may not.
A Realtor can give a professional opinion of how much a house is worth. But the realtor does have the incentive to inflate the price because the more you pay the higher their commission is.	You will pay a professional for a CMA $40-50 dollars or an appraiser $400 dollars to estimate the value of the home. You do have to get an appraiser at some point anyway to buy a home and get a loan. You can get rough estimations for free online.
Realtors will not tell you about FSBO's unless the seller is offering a commission. And they still might not tell you because they don't want to go through the hassle of finding out if the seller is in fact giving a commission.	Every FSBO is a possible home for you but you have to find them yourself. Classifieds, websites and riding around neighborhoods that have for Sale signs are the way to find them.
Realtor is paid by the seller usually 3% of the home price	With no realtor the seller doesn't have to pay a commission and may negotiate a lower

	price with you for that reason.

The truth of the matter is if you can find a home on your own then you do not need a realtor. You can still hire a realtor to do a Competitive Market Analysis (CMA) to let you know how much the house is really worth for about $75.00. The market analysis will compare other similar homes that were sold in the neighborhood to your prospective house is in and their sales prices. It is recommend that you do get a professional CMA so you don't pay too much for a home. Keep in mind many realtors will offer to do this for free in hopes to get the home and commission for you. Make you desires clear and tell them you just want the CMA and ask their fee.

Another option instead of a CMA from a realtor is to get an appraiser to do the assessment for you. An appraiser will be even more accurate and detailed than the realtor but you pay for that. Appraisers fees usually run starting at $400.00 and then upwards. Also bear in mind that you will have to hire an appraiser at some point because banks do not give loans without an appraisal from a legit appraiser. This is whether you use a realtor or not.

If you are in a pinch there are websites that give free estimates for homes. They are not that accurate and go on recent sales data and property records. They give ball park figures. It is not recommended to make your decision based on this type of estimate. You need a real appraisal from either a realtor or appraiser.

Whether you use a realtor or not all sales and paper work are handled and signed in an office through a title company. The title company makes sure that the house is the sellers to sell and that there are no outstanding claims against the property. To further protect yourself you can hire an attorney to check all the paper work before you sign. A lot of people don't however at their own risk.

Another thing you want to do is when you find a house that you are interested in purchasing; you want to ask the seller for a disclosure report. This is a form that the seller “MUST” give the buyer. The disclosure report gives details of all the physical problems and defects of the house they are selling so the buyer can be aware of them. This is like a lemon law for homes. It is a “BIG” crime for sellers not to disclose any problems that they are aware of when selling a home. Note however that if a seller isn't aware of a problem and did not state it in the disclosure then they are not liable because they weren't aware of it.

Besides giving the prospective buyer the disclosure form the seller also has to give the buyer a federally approved pamphlet about lead and other hazardous building materials. They seller has to note any lead paint and or objects present in the prospective home to the buyer.

If the items listed by the seller seem major on the Seller's Disclosure that may be a way to negotiate for a lower price. However the price may already be at a low offer due to the magnitude of the problems.

Although the Seller's Disclosure is supposed to protect the buyer, keep in sight the big loop hole. That is that the seller doesn't have to state what they aren't aware of. If you buy the home and notice a big problem after; how do you know that the seller was aware? You have to prove it beyond any reasonable doubt. If you do think you have a case; like the seller overlooked the 4 foot hole in the living room ceiling and said they were not aware of it, you might win when you go to court. This is why you hire an inspector before you seal the deal on the house. A professional inspector will check out the house and give you a detailed written report on any problems they find.

Chapter 9: Making The Offer and Signing

If you see a house that you really want you will most likely make an offer for it. Basically an offer is telling the seller you want to buy the house. Making an offer doesn't usually obligate you to buy a home, and this is especially true if the inspection shows a lot of problems with it. It's always good to find out why the seller wants to sell their home. The person who listed it however may not be willing to tell you. You can however still gather information about why the seller is putting their home on the market without the cooperation of the listing agent.

When making an offer the climate of the real estate market can actually help you with the offer you make. You want to assess if the market is hot, cold or neutral. If you are a buyer, a buyer's market is the one you are going for. This is because in that case there will be more houses on the market to buy. In a buyer's market there are more choices to choose from giving you the best chance at the house you really are looking for.

When the real estate market is “cold” it is the serious sellers that are willing to negotiate. When this happens chances are you can buy a house less than what the asking price on the list is. When the market is cold you may even find the seller willing to pay some or all of your closing costs.

By definition a buyer's market is one in which there are lots of homes on the market and very few buyers competing for that inventory. Typically an inventory of more than six months of homes is a buyer's market. When inventory rises buyers have more choices and more time to choose. Also the prices drop to meet the demands of the buyers.
In a seller's market the seller has more buyers available for his house. The seller in this case can pick the best offer. They can also pressure the buyer to seal the deal in ten days (ten days because there is a ten day law to inspect for lead paint).

Neutral markets are balanced markets. The rates are affordable and there are as many buyers and sellers in the market place. There are no volatile swings in the market, it stays even.

The next thing you want to do is find out how much the seller paid himself for his house. The reason for this if the seller bought the house in a depressed market (the buyer calls the shots); with little appreciation since the selling price would probably be closer to that sellers original purchase price. Unless a seller is in default and willing to participate in short sales (the seller's lender is accepting a discounted payoff to release an existing mortgage); a seller would be less likely to take anything less than the mortgage/mortgages and closing costs.

When looking for a home you want to look at comparable sales as well in order to help you make an offer. You want to use only those properties that are similar in configuration, age, and location to the home you want to buy. Use the data from those most recent purchases. Don't look before six months because appraisers won't either. Your realtor can help you with how much you should offer. Keep in mind the realtor has two incentives. One the higher the price the more commission they get is and two the higher the offer the more likely the seller will accept.

Ask your realtor for a trend report that covers the last six months. Look at the prices of the homes as they were listed on the market compare them to the price they were actually sold as. As how much is the gap between the two. Are the homes being sold over the price list or under? If they are under the price listing then by what percentage under? If many of the homes are sold under the price by 2% this is an indication that the seller will accept your offer.

The next thing you need to check is the square foot costs averages. It is important to understand that smaller homes are priced higher per square foot while the larger homes are less. You CANNOT take the average square foot costs of the house you are looking to buy and then multiply that figure by the square footage to come up with an asking price. The trends of the square foot averages let you know if they are on the rise or decline and use it to your advantage for determining your offer.

You also want to find out if the home you are interested was on the market and then removed and then put back on the active listings again. Some agents like to take homes on expired lists and re list them again. The DOM or the amount of days a home is on an active market list or lists is important to know for negotiating. This is because if a home has been on the market for more than thirty days the seller is usually willing to wheel and deal.

If you don't want to negotiate and you think the house is worth the asking price than offer the asking price. If you want to get a better deal you can offer a little less than the seller wants to see if he will agree or not. When deciding what to offer there are a couple of things to keep in mind:

- **The advice of your realtor** – Remember the realtor has more experience and is more familiar with the process than you are.

- **How much the Bank is willing to loan you** - You cannot offer more than you can afford. You have to know your budget

- **How much the house is worth –** You need to know how much the house is worth, no one wants to over pay for a home.

- **How much you really want the house -** If money is no object and you can afford even more to get what you want then you are lucky. Offering more than the market price works if you plan to stay in that home for a while. For example if the seller is asking for $200,000 but the realtor says it's worth $180,000 you can pay the asking price and you will get it. Keep in mind an overpriced home takes longer to appreciate but when you buy one like that you don't usually move so it works out.

The way people usually make an offer is to sign a contract and pay earnest money. Earnest money is a deposit of $500 to $1000 dollars down to show you are serious about buying a particular house. This contract does not obligate you to buy the house no matter what. If the seller accepts your offer they sign a contract with you and then you proceed to have the house appraised and inspected.

If they don't agree they will draw up a new contract; making a counter offer by preparing a new contract with different that they will ask you to sign. This process repeats until you either have a contract signed by both parties or the deal falls through because the two parties could not agree. If, the seller agrees to your contract he will take the house off the market. You will not have to worry at that point about competing offers while you are having the house inspected and appraised to see if you really want it based on those reports. What this does is secure your position on line as the first to buy this home.

Make sure you get a copy of a standard contract so you can see what's in it and can follow along easily. There are websites like the real estate commission for your state that have samples. If the seller wrote it from scratch get your realtor or attorney to look at it to make sure there is no disadvantageous clauses for you. The contract is to protect you from a lemon by stating that if any significant problems are found upon the inspection or appraisal you have the right to walk away or it can state that the seller has to fix the problems before you buy it. In some states the contract states the buyer can back out of a contract if lender required repairs exceed 5% of the purchase price. What this means in plain English is no one wants to lend someone money for a house in bad condition. There are also two options on a contract you can choose which protects the buyer. Make sure your contract has at least one of these two options available before you sign:

1. **Option Fee** - which is usually $100+ which gives you the right to walk away for any reason
2. You will indicate clearly on the contract that the seller is responsible for making any repairs found during the inspection.

Once you and the seller sign the contract make sure that you have the appraisal and inspection done quickly so you don't lose your earnest money. Also don't get to attached to the home just in case something does go awry.

Chapter 10: The Home Inspection

Based on the information in relation to buying a house you understand that an inspection is mandatory if you wish to purchase a home. In some states there are different inspectors for different aspects of the prospective home. Some contracts have two pages of stipulations in regards to the inspection. Many people who set out to buy a home are clueless about the details in a home inspection because they do not know the components structurally that go into constructing a house. Therefore when the prospective buyers get the reports they have difficulty deciphering them.

The main issue is they won't know what are the serious defects and if the inspector checked all the things that need to be checked. Depending on the licensing determines the type of inspection that is conducted on the prospective home.

After you sign the contract and pay down the earnest money you then have to hire a professional or more than one professional to inspect the home. All home inspections are different and vary state to state as from county to county and city to city. Much of it depends on the association to which the inspector belongs to if any. If in doubt you want to get an inspector from the National Association of Certified Home Inspectors or NACHI. They will base their inspections based on NACHI guidelines.

Some states like California do not even require an inspector to be licensed so they do not administer them. There are other states that do not require licenses for general inspections also. But, regardless of state the inspector must have a license to be able to inspect the following things:

1. Asbestos
2. Radon, Methane, Radiation and Formaldehyde
3. Wood Destroying Organisms
4. Mold, Mildew and Fungi
5. Rodents
6. Lead

For these things you need a licensed inspector; licensed to check for each of those things.

You want the inspector to be able to inspect all the structural aspects of your home. If you are energy conscious you may want to make sure the inspector does thermal imaging or have to get a separate inspection for that. You will also have to pay for a separate termite inspection which runs about $75 dollars or more. It is usually done by a pest control company although your general inspector may be licensed to deal with termites also. Lenders require termite inspections. They do not want to lend money to homes that are rotting away. If termites are found they are easy to get rid of although pricy. It can cost $700+ to rid a home structure of termites.

Here is a general check list of things that need to be looked at in a home for an inspection:

1. **Structural Elements** - The walls, ceilings, floors roof and foundation all need to be checked

2. **Exterior Evaluation** - The Outer wall covering, landscaping, grading, elevation, drainage, driveways, fences, sidewalks, fascia, trim, doors, windows, lights, exterior receptacles all have to be inspected.

3. **Roof and Attic -** The framing, ventilation, type of roof construction, flashing and gutting all need inspecting. A roof inspection however does not include a guarantee of roof condition or a roof certification (roof certification is not stipulated in buying contracts).

4. **Plumbing -** This includes identification of the materials used in potable, drain, waste and vent pipes. Inspection of pipes also includes the pipes conditions. Toilets, showers, sinks, faucets and traps are all inspected. However this does not include the sewer system. You may want to inspect it anyway and can pay for a separate sewer inspection.

5. **Systems and Components -** These include Water heaters, furnaces, air conditioning, duct work, chimney, fire place and sprinklers.

6. **Electrical -** The main panel, circuit breakers, types of wiring, grounding, exhaust fans, receptacles, ceiling fans and light fixtures are all inspected.

7. **Appliances -** These are the ones that come with the house such as dishwashers, range and oven, built in microwaves, garbage disposal and smoke detectors all under inspection.

8. **Garage -** If you have a garage with the house that needs to be inspected as well. Slabs, walls, ceiling, vents, entry, firewall, garage door, openers, lights, receptacles, windows and roof as well as the exterior are all checked.

When you get a home inspection the result reports will not describe every component if it is in excellent shape. However every item that either needs servicing or is defective is mentioned. The serious problem areas are:

1. Anything considered a health or safety issue
2. Roofs with a short life expectancy
3. Furnace/AC deficiencies
4. Moisture and Drainage issues

If there are some serious things found during the inspection you can take several routes to handle the situation. The first consideration is what the contract stipulates and if you paid an option fee. If you did put an option fee down when you signed the contract your options can be to

1. Back out and forfeit the option fee

2. Negotiate with the owner. You can see which things the owner is willing to fix or maybe they will lower their asking price.

3. Accept the issues and fix them yourself

If you did not put down on an option fee but wrote into the contract that the seller is responsible for fixing anything found wrong, then the seller has to fix anything found wrong in the inspection. This is all in keeping with what was stated the seller has to fix in the contract. Once the seller fixes the

problems you will buy the house.
Keep in mind you have to have the house re-inspected to make sure the issues were remedied. A re-inspection however costs much less than the initial inspection. If you have a choice and it should be in the contract it is better for you to have your own contractor available for the repairs. This is because the sellers incentive would naturally go the cheapest route with repairing and quality of material.

If you didn't put down an option fee nor write anything about the sellers responsibility to fix the problems then unfortunately you will have to buy the house. The only loop hole would be if the lender refuses due to fact that the repairs exceed 5% of the purchase price. You can ask the seller to lower the price or to fix the problems but they are not obligated because it was not put into writing.

Make sure you do not put yourself into that position. Always make sure you understand the contract. To protect yourself either always make sure there is an option fee and that there is a stipulation in the contract that the seller will fix anything found exceeding $500.00. Also keep in mind the bank may not lend you the money if there is significant problems unless someone (either you or the seller) puts money in escrow for the repairs. The lender feels in this way the repairs will be made. In addition understand that there may be problems that are not visible to code as violations such as a furnace that leaks carbon monoxide or a falling chimney. These things are easier to see in a new home than an old one or fixer upper.

Chapter 11: The Appraisal

As I mentioned earlier in this book the appraisal is another important step in the home buying process. The appraisal report offers a close estimate of the house and property's true value. Once you tell the lender that you selected a house and negotiate the terms with them they will have an appraiser inspect the home. Their appraiser will prepare a report estimating how much the house is worth. This is to ensure the lender that you are paying the right amount for the house you want. He does not want to lend you $180,000 for a house worth $135,000.

The appraiser will base their appraisal on the cost of other similar homes in the same area have sold for; and the amount of potential rent as income if the house was a duplex. Sometimes you can have the cost of the appraisal added to the closing costs and other times they want the money upfront.

Don't confuse a CMA with an appraisal. CMAs are used by real estate agencies to determine realistic asking prices. Experienced real estate professionals have enough experience to come close to the appraisal price with the CMA; but the appraisal is a detailed report. An appraisal is the only report a bank will consider when they lend money for you to buy a home. Appraisers are state licensed. The lender may even have an appraiser on staff that they use. If you are allowed to choose an appraiser and the lender isn't familiar with them they may subject the results to review before making a final decision whether to finance the house you want or not.

An appraiser should be a neutral objective third party; who has no financial or other connection to anyone in the transaction. The property being appraised is called the subject property. Chances are when you apply for the loan you pay for the appraisal at that time. The type of Appraisal you will most likely get is called Residential Appraisal. Residential Appraisals are very detailed reports that contain the following:

1. Details about the subject property; alongside three similar properties showing a comparison

2. An evaluation of the overall real estate market area

3. Statements about issues the appraiser finds harmful to the property's value such as poor access to the property

4. Notations about seriously flawed characteristics such as a

crumbling foundation.

5. An estimate about the average sales time for the property

6. What type of area the home is in (a development, stand alone acreage etc.

There are two types of basic appraisal methods for Residential Appraisals. One is the Sales Comparison Approach and the other is called The Cost Approach. In a Sales Comparison Approach appraisal the appraise appraises the subject property's market value by comparing it to other similar properties that are sold in the same area. The compared properties are called comparisons or comps.

Since no two properties are exactly alike the appraiser has to adjust their paperwork to make sure that the features of the comps are in sync with the subject property. The results in this type of report would show the value of the comps if they had the same features as the subject property and what they would be sold for with those like features.
The cost approach appraisal works better for new homes. That is because the costs are known in terms of how much it cost to build the property. In this case the appraiser estimates how much it would cost to rebuild the property if it was destroyed.

So what an appraisal means in terms of your loan is that even though, you may have been approved in the early processes of the loan, the final loan commitment usually lies with a satisfactory appraisal report. The bank wants to make sure that their loan investment is covered if you default on it. If by chances the appraisal is lower than the sale price, the bank may choose to decline its offer. There are other reasons a loan based on an appraisal may be declined also. Here are some of the basic reasons:

1. They may not like the fact that the estimated sales time is longer than other properties in that area

2. If the appraiser notes that the entry to the property is from a private shared road the bank may want to see a maintenance road agreement signed by everyone who uses that road verifying that the maintenance is shared by all parties.

Those are just a few of the drawbacks that could impede or cause the bank to back out of a loan for a home. They will stall if they feel there is something in the appraisal that needs to be scrutinized to determine whether or not the property qualifies to serve as security to your loan.

If for any reason the appraisal comes in low don't panic there are things you can do to remedy the situation if you really want the home. You can check these things first to support an argument in your behalf.

1. The prices could have been artificially inflated due to multiple offers via the seller.

2. The market can be in a decline due to fewer buyers shopping among a large inventory of homes.

3. There could be a fall out from an abundance of foreclosures and short sales in the neighborhood of the home especially if there are no comparable property sales exist.

4. Incorrect evaluation from the underwriter (underwriters finalize the loan, analyze lender risk and reserve the right to ask for additional conditions to be performed or delivered prior to funding).

5. Over pricing by the seller

6. The appraiser is inexperienced; and doesn't understand the influences on value

7. The appraiser over looked pending sales data which could reflect higher comparable sales when closed; or the appraiser selected comparable sales from the wrong neighborhood.

8. Buyer receives cash back from the seller causing the lender to believe that the price has been inflated

Both you and the other party do have options to try and prevent the sale from falling through. You can:

- **Ask the Buyer to make up the difference in cash** - The lender cares about the appraisal only to the extent it affects the loan-to-value ratio. A low appraisal does not mean the lender won't lend. It means the lender will make a loan based on the ratio agreed to in the contract at the appraised value.

- **The seller can lower the price** - If the home was overpriced or the value was inflated, often this is the best solution. It makes the buyer happy and the lender is satisfied. There is no guarantee that if the buyer walks away, the seller won't receive a low appraisal from the second buyer's lender, not to mention the time and trouble it takes to sell the property again. Sometimes a bird in the hand is best.

- **The seller can offer to carry a second mortgage for the difference** - If the buyer really wants the home but cannot come up with the difference in cash, making payments or a lump sum payment at a later date to the seller is an option. After the escrow closes, sellers often retain the right to discount the second mortgage, sell it for less than face value to an investor.

- **Order a second appraisal -** First, if your loan is an FHA loan, ask the lender for a list of approved appraisers. Either the seller or the buyer can pay for the second appraisal. Sometimes the second appraisal will come in higher than the first, especially if the first appraiser was inexperienced or made mistakes. If your loan is a conventional loan, then it is subject to the rules of the Home Valuation Code of Conduct. Barb Torres, an accredited senior appraiser says, "As soon as the parties find an appraiser is coming out who is not familiar with the local market, they have every right to contact the lender (preferably in writing) to DEMAND a local appraiser be used."

- **Supply a list of comparable sales -** Ask the agents involved to put together a list of recent comparable sales that justify the agreed - to sales price. Submit that list to the underwriter and ask for a review of the appraisal. Also, ask the agents to call the listing agents of pending sales to try to find out the actual sales price of those properties. Listing agents do not have to disclose the sales price, but many are happy to help out because they could find themselves in the same situation.

Finally you can cancel the transaction. Many purchase contracts do contain a loan contingency. It states that if the appraisal comes low the buyer does not qualify to buy property at the agreed-to-terms in the contract. A properly written loan contingency allows the buyer to cancel the contract and requires the seller to release the buyers earnest money.

In addition to the appraisal you have to have a survey for the property done. The lender usually is the one who hires the surveyor and the cost is about $350.00. The survey is part of the closing costs rather than upfront. The purpose of a survey is to indicate the official
property lines, property boundaries, sidewalks, public utilities and things of that nature in relation to the house and the land it is on. The survey is also mandatory. It is a diagram indicating the legal boundaries of the land that your house is on and that extends to the other parts mentioned above. The survey is given to you along with all the other papers at the closing.

Chapter 12: The Insurance

If you are going to own a home it's good to have home owners insurance. You select an insurance agent and then you give your agents contact information to the title company. The lender takes care of the annual insurance payments by adding a little monthly to the mortgage. What happens is you pay the initial insurance payment when you close with the lender for the house not before. If you prefer you can pay the insurance yourself annually; you just have to specify your preference with the lender.

Its recommended for you to start to look for insurance on your prospective home as soon as the offer is taken. The insurance agent will have to decide if you are insurable. Once you meet with an insurance agent they will take extensive information from you in order to quote you the best type of insurance policy for your needs.

Here are some of the basics that an insurance agent will ask you:

1. When was the home built?
2. How old is the plumbing and electrical?
3. What type of roof?
4. What's the square footage?
5. How many claims have been filed over the last 5 years?
6. Where is the home located?

If the home is located in a rural area and not near a fire department or have a nearby hydrant on the street some companies will not even consider you for insurance. In this case you may have to inquire at a specialty or surplus lines company and this kind of quote takes longer to obtain.

You can save money if your insurance policy has a higher deductible. In general insurance companies will start to give discounts at a $500.00 deductible. The discounts increase as the deductible increases. Although most insurance companies offer deductibles up to $10,000 dollars many mortgage companies will not let you exceed a $1,000 dollar deductible. You have to check with your mortgage company on that matter.

To insure that your home will be covered by the appropriate amount of insurance, the agent will use a cost estimator to figure replacement cost estimates. Keep in mind that insurance companies do not insure dirt; so if your purchase included a big lot that you paid for in the cost of the house don't expect that to be covered in an insurance policy. When you buy home insurance it's just for the home and not the land it sits on.

In the past replacement coverage on a home was called “Guaranteed Replacement Cost". Unfortunately there is no such coverage anymore. Today it is called “Replacement Cost Coverage” which means that each insurance company designates a percentage of additional coverage on top of the insured amount. This was established to protect the homeowner in case of a loss against having to pay additional costs to rebuild a home. To rebuild a home it can cost more just because of inflation or the rising prices of materials. An example of this would be if a home is insured with $300,000 dollars worth of coverage the company has 125% replacement cost coverage so the home owner in this case would receive an additional $75,000. It is recommended that the homeowner today get 200% insurance policy coverage because this way the home owners coverage is doubled.

There are other things in a home insurance policy that you can tailor to suit your needs. Many times liability coverage in a home insurance policy is overlooked. Liability coverage protects the home owner against claims of bodily injury and property damage to others.
For example, if your 5 year old is playing with matches and burns your neighbor's property then your liability insurance would pay for the damage. In insurance policies its common to see $300,000 liability coverage; to raise it to $500,000 it would cost an additional $20 dollars a year. You can have up to one million in coverage on an average policy. Over that then you would need what is called an excess liability policy or umbrella policy. With an umbrella policy you get an additional 1 million dollar liability coverage for an additional $300 to $500 dollar premium.

When discussing your possibilities with an insurance agent you want to make sure you are getting all the available discounts. For instance if you have an alarm system that is connected to a report station like Brinks or ADT in some cases you can get a 10% discount. If you are 50 or over that in its self can make you eligible for a discount.
Insurance companies have different names for their age preference policies like senior discounts or mature policy holder discount.

The most popular type of discount is the multi-policy discount.

This is where the policy holder has two policies with the same company. By combining the two you are given a discount. It usually is a home and auto combo. It's good to shop around for the best offer. Different companies have different discount offers.

It's good to periodically call your insurance company and check your policies. Review your homeowner police once every three years. As you know needs change, markets change as does coverage. You should stay up to date on your insurance because you never know when you will need it.

Chapter 13: The Closing

Assuming that the appraisal went through we are now finally at the final stage called the closing. In order to get to a closing you have to make sure the agent stays on top of his game with you. It's important to ask your lender for a list of things required for ensuring a successful closing. It is also crucial to stay in contact and talk to the agent to make sure they are doing their part. Many a closing has fallen apart due to a lax or inexperienced agent.

If by chance you are working with an FHA or VA loan make sure you are up to date with all the current requirements. Be sure to keep up with all the deadlines such as promised dates for all inspections and loan commitments. Also make sure that everything that needs to be is conveyed to the seller in a timely fashion. Although an agent cannot steer clients to specific individuals they can give you listings of service professionals that have good track records such as surveyors, home inspectors, pest control companies, attorneys. Make sure that the closing agent gives you a list of utility companies that can service the new home. They have to make arrangements with those companies as soon as the closing is completed. You may also have to remind the client that they have to do transfers and utility cut offs of current things as well.

The realty agent can go with you and stand on the side with you watching what takes place during the various inspections. You the homeowner may be stressed especially if repairs are required. This give the realty agent a better idea of how to negotiate with the buyer.

Chance is your agent is working with the seller and there is no contact on the date of commitment they need to call you the buyer and find out why, as an agent they have to talk to the selling agent.

Closing time is when you and the seller have to sign reams of papers. This is usually done at the title company. The seller and you the buyer may not even be there at the same time. The title company will make sure the house is really the seller's to sell at the closing. It is also at this time that they look to see if there are any outstanding claims against the property. Even if you don't use a realtor; the sale is still handled by the title company as a precaution to protect you.

If you want further protection you hire a lawyer though it's not mandatory. Depending on the state attorneys usually handle the closings for the buyer. This includes the attorney handling the title search.

This is also the time that the money changes hands. So you

want to bring a blank bank check (not a personal one) for the down payment.
If the closing costs weren't rolled into the mortgage you need another blank bank check for the closing. For the mortgage money you ask the lender to wire it directly to the title company. If all goes smoothly the keys are handed over to you and welcome to your new home.

Chapter 14: Conclusion - New Homes vs. Fixer Uppers and Foreclosures

So now you know the basics of what goes on with the purchasing of a home. So based on your budget you decide do you want a new home, a fixer upper or a foreclosure. Let's look briefly at each type of home and its pros and cons.

When deciding whether or not to go with a fixer upper starts with doing the math. With a fixer upper ideally you find a home that is way below market value, invest time, money for renovations and come away with a new home for twice the value. That's if you know what you are doing right. Buying a fixer upper can be extremely problematic so you need to assess the situation realistically.

The first thing you do when looking into whether or not to buy a fixer upper is look at what you should pay for a house of that type anyway. Next, you have to assess “ALL” the renovation costs, against the value of the property. The estimate includes the current condition of the house in relation to how much it would really cost to fix it to your liking. The estimate should be tough including the cost of materials and labor including your time and energy. After that you subtract those costs from the homes likely market value after renovations, drawn from comparable prices in the neighborhood. Finally deduct another 10 to 15 percent from that figure for unforeseen problems, inflation or the little extras you want in that home. That final figure is your offer.

Like all homes even fixer uppers require inspections. The good thing with inspections in relation to fixer uppers is that it lets you know if it would be a good investment or if you should re-neg on the deal. Many times with fixer uppers it's a little of both. There is usually one or two real serious problems that are costly. What you can do is go back to the seller with the problems found in the inspection and re negotiate to either get a lower price or have the seller do repairs. If the house needs major structural repair real estate experts will say don't buy it. This is because major repairs such as plumbing, electrical overhauls, foundation upgrades and extensive roof and wall work are rarely visible. And once paid for they do not offset the cost of renovating by raising the value of the home.

Ideally the kind of fixer upper you want is one with mostly cosmetic problems. This is things like paint touch ups, dry wall repairs, floor refinishing; these type of things which cost dramatically less than what they give back in market value. Things like new lighting fixtures, doors, windows/shutters/sliding as well as updated kitchens and bathrooms are lucrative improvements.

Usually it takes a combination of structural and cosmetic to make a fixer upper equal to the other homes in a neighborhood. These type of things would include perhaps adding a family room or a third bedroom in a three bed room neighborhood. These type of renovations can cost as much or more then they return in market value. The exception to this however would be adding a bathroom which actually add twice as much to the cost of the home in market value. Sometimes you can fold the cosmetic fixings into the structural repair to increase the value of a fixer upper. For example if the roof is being fixed you can add a sky light at the same time. Or adding a bay window to a wall that was dry rotted is another example. It is however recommended not to over improve. It is advised by the National Association of Homebuilders for maximum resale value investments the remolding investments should not exceed 10 to 15 percent of the median value of the homes in the area.

Now let's look at foreclosures. By definition a foreclosure is a legal proceeding which can be used by a lender (the bank/mortgage company) if the homeowner (mortgage holder) fails to make mortgage payments. The lender then takes the house back its that's simple and it is put eventually on the market for another to buy. The person loses their home if they cannot make the payments.

Sellers stop making payments for various reasons. Few people go into foreclosure willingly. They usually lose their source of income in some form and cannot make the payments. It can be for job lose, medical conditions, a divorce, mounting bills or a job transfer. There are many reasons for foreclosures.

People who specialize in buying foreclosures like to purchase the home from the seller before the proceedings are final. Keep in mind the seller which is the home owner is in distresses nine and one half times out of ten. Know that foreclosures vary from state to state. In states that honor mortgages the seller can remain in their home for up to one year. However in states that use trust deeds (A recorded document that in conjunction with the note creates a security interest in real property. In some States, referred to as a Mortgage. It a document that transfers the legal title to property to a trustee.) the seller would be given less than 4 months before the trustee's sale.

Almost all states have a period of redemption. This gives the seller the right to try and remedy his situation. They give the seller time to cure the default. This includes paying all the foreclosure costs, the back interests and the missed principal payments in order to regain control of the property. You have to decide if you are the kind of person who wishes to gain a home at the expense of someone else's misfortune. It could mean putting a family in the street.

If you decide to go the foreclosure route you have to go to your county or cities office to see how the sales of that nature in your area are handled. There may be stipulations like no loan contingency (this means the finance contingency is omitted from the contract by the seller to protect themselves against the buyer not securing a loan). This means at closing if the buyer doesn't come up with cash to buy then they lose 10% of their deposit. There may also be things like sealed bids, proof of financial qualifications, sizable earnest money deposits and purchase property as is clauses to be eligible for a foreclosure.

Also know that sometimes buyers are not allowed to inspect the home before making an offer on a foreclosure. This means you cannot calculate the costs it would take to fix the problems. You also don't know if the inhabitant will retaliate against the lender and destroy the property before they leave. You may also have to evict the current person or family once you buy the home from the lender which is also costly.

To purchase a new home which is ideal you must look at your budget and stick to homes that can go with your finances. If you are considering a new home or building one you have to do the math once again. The costs of labor, time and materials based on your budget versus an already made new home. Existing homes are always cheaper than building a new home. There are times though in the economy where the cost of building materials and labor are relatively lower making it more economical to build. But keep in mind the costs usually over run because the desire to build a perfect home then enters the equation which means more money spent.

The benefits of building a home of course is you get what you really want, but your budget may not be able to handle the costs. It also depends on the market as whether or not to build or buy. If the market is in a slump you may be able to find an affordable new home in foreclosure. The rule of thumb is that buying an existing home is cheaper than building.

So this is basically an over view of the type of homes you can choose from based on your budget and needs. This little guide took you though the basics of how to buy your first home. Now you can look towards those who are experienced in buying to help you complete the process. Good luck on getting the home of your dreams for your budget.