

Chapter 1

Finding A House

Had enough of the condo/apartment life? Ready to settle down and deal with ownership? Now, you are the one on-call when you own your own property. When you are ready for this—by all means, plunge in! Owning your own home is a dream, a challenge, and can be a nightmare all at once. On the whole, it has its rewards—it is *yours!*

If you know of other women who live in their own homes, talk to them. Find out what they did right, what they are happy with, what works, what doesn't. Don't be afraid to ask! There is always a first time for everything.

Make a list of all the things you *wish* for in a house, then another list of all the things you *have to have* in your home. A sauna can be a wish, but a bathroom is a must. Even how many bathrooms can be important. Does your home need a dishwasher? Washer and dryer? Extra bathrooms? You get the idea.

Pick up plenty of real estate guides from the areas you are interested in living. These are found everywhere! Look in restaurants, banks, grocery stores, local markets, anywhere free literature is left. Check out the newspaper real estate sections. Look at what is available and start planning. Just don't let your drool mess up the pages!

Dream On
It is okay to dream of the little house with the picket fence, but it is more practical to get the house that suits your needs first.

Financially First

You will have to prove to a lender that you are a good credit risk, someone the lender can trust to pay back this huge sum of money you are asking for to buy your house.

Know your score

The credit report will give you your credit score. The higher the number, the lower the loan percentage rate the bank or lending institution will charge you.

Establish credit

If you haven't already established some credit, do so now. If you have a loan on a vehicle, that's some credit. But better is to get a credit card, buy gas or something little, if you are reluctant to use them. Then pay it off immediately. Do *not* get lots of credit cards, nor ones with high limits. The more credit cards you have the less you can borrow. Even if they have no balances. The lending institutions add up all the limits of the credit cards and reason that if you have \$50,000 worth of credit lines—even if they aren't used—you could use them to furnish a house after you buy it, and then not be able to pay your mortgage payment for the credit card debt you have to pay off.

Get a credit report

Make sure your credit rating and score is going to allow you to get a loan. You can get your credit reports from the big three services, Trans Union, Experian, and Equifax, by requesting a report. Each has its own website (type in their name). Reports are available for free or for a nominal fee, around \$8-9. Some reports cost \$8 through internet sites like www.qspace.com (for an instant report). Occasionally, credit card companies put flyers in your billing envelope for free or discounted reports. Take them up on the offer.

Check that report

Check to make sure that the reports are accurate! They may not be. It is up to you to make corrections. If you are a co-signer on someone else's loans, those loans will be listed on your report. For example: If you are co-signing for

a child's car or other loan, even if the child is paying the loan, this will be on your credit record counting against your available credit limits and score. Say your son bought a car with a \$10k loan and you co-signed it. The bank is looking at the maximum credit reasonable to allow you according to what you can pay and how well you pay it. If the bank says you are good for up to \$100k loan, but you already have \$10k being used by your son's car—you really only are eligible for a \$90k loan.

If there are lapses or some slightly delayed payments that can be reasonably explained away, that's okay. As long as you can explain them adequately to the lender—perhaps the check was lost, or posted late due to no fault of your own (that happens), or there was a misunderstanding regarding payment.

If your credit isn't that good, there is hope. It takes more looking or bargaining with lenders.

Get your financing

Find a bank, or other mortgage lender. Start with your own bank or credit union. They may already be working with Fannie Mae or other state or federal agencies working with first-time buyers. Don't hesitate to look into all your options. A good banker dealing with real estate loans can help direct you with invaluable advice—as well as help you figure out what you can afford, and tell you what they will lend you.

If you use Quicken, or a similar program to manage your money, there is a planning section to help you wade through the home-buying figure work. You fill in the blanks with your personal financial information, it will tell you how much house you can afford, what the payments should be (barring PMI, escrows for taxes, etc.), and what you need for a downpayment.

Check internet sites for mortgage lenders. Take a look at the Fannie Mae site at www.homepath.com where

that can lead you to other lending institutions that can handle your requirements. Much of the loan process can be handled online, but if you are not comfortable with this process, or don't have online access, go meet the lender. That way you get plenty of helpful advice and they can steer you on the best course to finish the process.

Figuring the costs—what can you afford?

The simplified rule of real estate cost figuring is this: you should spend no more than 28% of your monthly income for a mortgage payment including insurance and taxes. This is the Housing-Expense Ratio or the Front Ratio.

$$\text{Example: Total monthly house payment} = \text{gross monthly income} \times .28.$$

The Back Ratio or Debt-to-Income Ratio figures that you spend no more than 36% of your monthly income for the house, insurance, taxes, other loans—and credit card debt.

$$\text{Example: Total monthly house payment} = (\text{gross monthly income} \times .36) - \text{monthly debt}$$

How much downpayment do you have ?

Most loans require a 20% downpayment, unless you get under a Government sponsored plan such as Fannie Mae or one sponsored by HUD. Your state government may sponsor their own program. Check with your bank or lending institution about these programs.

As a first-time homeowner through one of these programs, you may be able to drop your downpayment to only 1% to 3% of the total home price.

Private Mortgage Insurance

However, you may be required to pay a monthly insurance charge (the PMI or Private Mortgage Insurance) through the mortgage payment to pay this, increasing the cost of your loan. When your equity has reached the 20% point,

Furniture

So what will you sit on? Or eat off?

Make sure you'll have enough money to furnish your new treasure, if possible.

you can usually get this removed. PMI insures the bank that you won't default on the loan, and they are covered if you do.

Using government programs

If you use a government-sponsored program, *it may limit the resale profit on the eventual resale of your home*. The idea being, if you bought an affordable home, it had better be affordable for the next person. If you buy a home for \$50k under the program, fix it up and enhance the value considerably, you might not be able to recoup much more than a modest profit (i.e., 1% of the value of the original loan) on top of the costs you put into the upgrade.

If you have this type of project in mind, you should check with the lender or read the contract thoroughly to check if you can refinance when you are beyond the 20% equity point before you spend the money on the upgrade—to get out of this part of the program. Some lenders will let you. Others won't. You have to find out.

The higher, the better

Of course, the higher the downpayment, the lower the loan, or the more house you can afford. Say you have \$50k for a downpayment. If you were to buy a \$100k house, your loan would only be for \$50k or about \$330 a month at 7% for 30 years. Conversely, if you only have 1% or \$1k (through a state or federal program) for a downpayment, then \$99k has to be financed for \$660 per month at 7% for 30 years.

Everything depends on how much you can spend each month for your housing needs, how much you have saved, or can “borrow” off family or other means (insurance policies) for the downpayment, and what housing is available.

Be aware that there are banks and other lenders that won't let you *borrow* money *nor accept* money for a downpayment. They want to know that you can pay the downpay-

ment all yourself. And they will check your bank records if you suddenly become “downpayment” rich and ask you about the instant benevolence in your account. They will ask you where it came from, as well as are there any strings attached to it—as in, do you have to pay it back?

More Costs

Don't forget bank closing costs in your calculations for the **total price** of the house.

Aside from the basic cost of the house, there may be other fees added on for title searches, filing fees, closing costs, appraisals, and so forth.

Ask the broker and your banker for these costs.

They should be literally spelled out for you on any loan application you are asked to sign.

Charts for Figuring Your House Purchase

The Maximum Monthly Mortgage Payment

Gross Monthly Income _____

Times 0.28 _____

Or multiply by 0.36 _____

Equals total a bank will let you spend per month

How Much House?

How much downpayment can you put down? _____

How much will the bank let you borrow? _____

Add the two— _____

That's the maximum total you can spend for your new house

What do you need?

First of all, what do you need in a home? A big one? A starter home? Townhouse? Single-family with its own space? Are you a family with children? Are you alone, but might enlarge to become a family? If you are single, what would you do if you do marry—sell the house or use it?

Do you need plenty of lawn space for pets? Then a single-family home would be preferable. This can be trickier for townhouse projects. Stay-at-home cats are a different issue than dogs which need to be exercised and contained in a yard. But, there are regulations against cats and other pets, too. Keep this in mind when looking.

How much room? What kinds of rooms?

If there are children involved, do they each need a room?

Usually it is better to plan for separate rooms for boys and girls, especially as they get older. Although your finances will ultimately dictate this.

How many bathrooms do you need?

If you are alone, this isn't a big issue. If you are a family, it can be! Mom may not wish to share with the kids while you are all rushing off to work or school in the morning.

Do you need or work out of a home office?

If so, narrow your search immediately to communities that zone for this—or don't care. Depending on your home office work, zoning may not be necessary. A writer doesn't generally have clients coming to the door all the time. A veterinarian would.

What type of community are you looking for?

Do you prefer rural, suburban, or urban? There are advantages and disadvantages to all. There seems to be a better

Nothing like getting to work for the big meeting and discovering only one eye is finished—
little
Mary had interrupted your makeup routine with “I have to go now, Mom!”

sense of community in urban and rural neighborhoods that suburbs don't necessarily foster. This, of course, depends on the neighborhood and whether the homeowners speak to one another, their kids play with each other, and they share time together. Are there community parks or gathering places?

Do you wish to be near your work, or is commuting a given?

Long commutes will take away from your private life, no doubt about that. If you use your commuting time to listen to audio books, or learning tapes then fine, you've gained. If you get seriously frustrated with traffic—find a community near your job. Talk to co-workers and find out where they live and what's available. Ask about commuting options—does your job or community offer ride-shares?

Consider the costs of commuting. At the current rate of 30¢ a mile, that adds up quickly. A 40-mile round trip commute will cost you almost \$13 per day at 32¢ per mile. Ouch!

Are you noisy or quiet?

If you prefer quiet, look for a place with a more settled crowd, empty-nesters and seniors. If children and noise are cool—make sure there are playgrounds, ball courts, skateboard parks and the like around.

Especially in rural areas, you can get an idea of the traffic noise by looking at the roads—are they full of tire skid marks? Those are made by young drivers doing “doughnuts” and other “fancy” maneuvers with their vehicles.

Are you more comfortable with lots of people around and close by?

A townhouse situation might be ideal. Especially if you are alone. There is safety in numbers. If you have children, a townhouse project with lots of kids would provide playmates for your children and babysitting opportunities.

Donuts!

They are fun to eat, but a bad sign on a street.

It usually means young kids showing off with loud vehicles. Something you will probably want to avoid.

Getting Started

Years ago, I decided to plan purchases starting with the top choice and working my way down. If I didn't need something, drop down a level. You could do that with houses. Start with your top price range first. Don't look at \$450,000 houses on a beer budget. Be reasonable. If you are in the \$150,000 (\$150k) range, then start there and whittle down.

Mark up those real estate guides you've been collecting. Remember to throw out the old ones as you collect the newer ones, so you don't have your heart set on a particular house to find it's been sold two months before.

Hit the internet sites, such as www.realtor.com, and fill in the information. That will get you started on what's available and where, in your price range. You can be as narrow or as open as you wish when checking the databases. Many real estate agents are connected to this site offering all their listings. You need to decide where you wish or need to live and go from there.

Using an agent or DIY?

What type of person are you? If you want most everything done for you, by all means, use an agent. The price of the listing already covers the agent's commission, usually 6-7% of the total price. The best part of using an agent is, they do the footwork for you. You tell them your parameters. They'll weed out the best of the market for you to look at, thereby not wasting your time cruising around looking at inappropriate properties.

If you have the time and energy to go it alone, you might consider it. Just be aware that you will have to understand loans, the laws on contracts, and *have a lawyer handy before you sign anything*. Plus, you'll have to spend the time calling the sellers listing without representation, known as FSBO (for sale by owner), quizzing them about items that aren't in the ads, visiting, and sorting out the facts from the fiction.

Check this:

Many sellers are creating their own website and selling alone.

Make sure the asking price is within the market range for the area, not too high nor too low. If it is too low, find out why! Is something wrong with the house? Has it been inspected or appraised by a pro? What about safety tests: radon, lead paint and asbestos?

**Your Local
IN:**

You'd be surprised how many times the real estate agent you have trusted to find your house becomes your friend and possibly a faster entry into the community.

Once, we went to see a FSBO house advertised as "Unique, custom-built" blah-blah-blah. It was "custom-built" all right—by the owner, using trees hacked out of his acres of woods—not by a professional custom builder. The "2-3 bedrooms" were really an attic storage room, a hall down a side of an open floor plan, and we never did figure where that third one could be. The advertised sauna was used for storage. It was hand-hewn, rustic (we *were* warned before the visit), and totally inappropriate for us.

Finding the right real estate agent

Do shop around for an agent or broker. Make sure the agent is licensed in your state. That is a requirement.

"The deal is the thing"

Not all agents have your interests at heart. Every agent may be a buyer's agent, meaning they are working for you, the buyer; or a seller's agent, working for the seller. You, as a buyer, want someone working for *you*, with *your* satisfaction as their goal. Don't be afraid to speak to many agencies or agents. Ask them who they represent, the buyer or seller. Hit their internet sites. Most agencies have them now. See what is available. If you get a brush off or feel you aren't quite connecting with the person, find another agent. Make sure the agent listens to you. If you like the agent, but feel you aren't getting what *you* want, talk to the agent first, or find another agent.

Ask your potential representative:

Are you a REALTOR®? There is a difference. All REALTORS® are real estate agents, not all real estate agents are REALTORS®. Usually minimal study requirements are needed to get a real estate license. REALTORS® are professionals who have passed much more rigorous training, take continuing education courses and belong to the National Association of REALTORS®. They subscribe to a strict Code of Ethics and Standards of Practice.

Do you have agreements with other brokers? Through MLS (the Multiple Listing Service)? Do you co-broke?

Do you know the area? You want your agent to know the value of the surrounding houses and within the area, to know the schools, towns, town structure, and possible future plans (you don't want to buy a house and find out that a box store is going up next door the following year). You want your agent to know that this will be the right place for you.

There is an organization of buyer brokers, the National Association of Exclusive Buyer Agents (web: www.naeba.org or 1-800-986-2322), that deals *exclusively* for the buyer. They do not take any listings. Therefore, there isn't any conflict of interest. *Don't sign an exclusive deal with a buyer broker unless you fully understand the contract*, because you could end up owing two commissions, one to the broker, one to the agent who found your house, *even if the buyer broker had nothing to do with the purchase*. Only sign a cancellable non-exclusive contract with someone you trust. Make sure there are limits within you and the broker work: i.e., geographic, price, etc.

When you find the agent you trust, deal directly with that agent. If you find a house you love, but it isn't listed with your agent, ask your agent anyway. Most often, your agent has an agreement with the other agency to market the house.

FSBO—For Sale by Owner

You'd be surprised at how many FSBO marketing sites, magazines and other ways there are of marketing a house. Of course, there are the newspapers from the areas you wish to move into. Check local weekly papers, as well as the bigger dailies.

For you as a buyer, this saves the seller the agent's commissions, something the seller loves. *But* you will spend

Warning:

Just understand that you are responsible for any and all contracts, legally.

“Most people are terrible at selling their own home, and we get the business when they botch it up.”
—A successful Realtor®

as much money, if not your valuable time, on lawyers fees, racing around looking at inappropriate houses or neighborhoods, researching all of this information, and possibly arranging and paying for inspections on houses that may not work out anyway.

A Note:

A lawyer can't help you pick out a house.

The houses being sold FSBO will not be on any real estate agent's list, but are available through buyers' brokers. This opens up an entirely new collection of homes.

That's up to you.

A big however: you must find out for yourself—if the houses you are looking at are priced correctly in the market. Is it too high? Or too low? If it is low, why? Is it ignorance or is something very wrong with the property?

A good lawyer can help you through this.

Signing a contract to buy a house from a FSBO is the same as buying it through an agent—*once you sign a contract, it is a legal document and you are responsible to the provisions in the contract.*

Limits:

Do know your budget limits. You don't want to get caught up in a bidding war and end up paying more for a house than you can afford.

Be prepared to back off in such a situation.

Start looking!

Set up appointments and be ready to offer a deposit on the house of your dreams—provided you have at least a couple of legal “outs” written into the contract in case the house isn't what you agreed on, or doesn't meet the necessary standards of the lender.

For example:

1. The house must pass an independent inspection by a licensed inspector to your satisfaction and/or the satisfaction of the lender
and/or
2. The contract is contingent on *you* getting financing
and/or
3. The house has to qualify and meet an appraisal that the lender accepts for financing.

Have the contract reviewed and *approved* by a lawyer or your agent *before you sign!* Make sure the sellers know

what's in the contract and understand as well as agree to the terms, too. You don't want to be stuck having to buy a house that you can't pay for, or isn't as functional as you were lead to believe forcing you to pay considerably more to fix it up to standard.

Agreement is Everything

Make sure you and the seller agree on everything. Right down to what appliances stay, as well as the drapes, blinds, light fixtures, outdoor plants and other removable items. If negotiations are necessary, stay civil about it. When done in a friendly manner, everyone wins. If you have to walk through the house and write down what stays and what goes with the seller, do so.

Maybe the seller wants most of the perennials in the garden—and you didn't know that ahead of time. You'd be infuriated to come back to the house on moving day and find holes where flowers once flourished.

Do you or don't you sign a contract?

If this is the house you want, you and the seller agree on what stays, what goes, and price, you have the contingency clauses in your contract, your lawyer has approved the contract—write out your deposit check.

If you are using a real estate agent, the agent will deal with this and guide you.

If you are doing this yourself, have a lawyer hold the check in an escrow account—in case the contingency clauses need to be used.

If the inspection doesn't warrant the house purchase or your financing doesn't come through—make sure you get all your deposit money back!

Buyer Beware! Years ago, one couple put down \$700 for a downpayment on land, contingent on all the septic system being part of the land purchase. Only to find out that the septic was changed to be an

Lawyer

Note:

Choose a lawyer who specializes in real estate law.

We got our house when our lawyer found a clause in the contract the other's lawyer did not, and evoked it.

It was the Right of First Refusal allowing the previous owner the chance to buy the property back if he could top our bid. Instead, the previous owner offered the house to us if we paid what he was due, another \$4k.

We accepted.

additional \$4k! That voided the contract. Did the potential buyers get their money back? No, it didn't occur to the real estate agent to return their money, *even though that was written into their contract*. The money was split between the real estate agent and the seller! That's illegal. When the buyers found out, it was too late to do anything about it.

Be aware:

If *you default* on the contract, you *don't* get your deposit back.

Do-It List:

- √ Make your wish/must-have lists
- √ Whittle the lists down to reasonable
- √ Do the financial figure work
- √ Get your credit report
- √ Find a bank or mortgage lender
- √ Find a Realtor® or decide to go it on your own
- √ Start looking