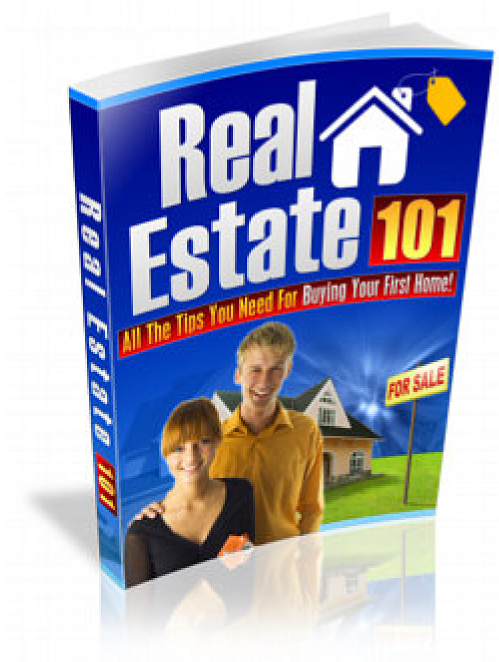
Real Estate 101

Buying Your First Home!



By

UnselfishMarketer.com

Table of Contents

Chapter 1 - Buying Your First Home Now!

There has never been a better time than now to buy a home. The prices are lower than ever and the Federal Reserve continues to lower the interest rates in an effort to stimulate the economy. Yet few people are buying because they are either afraid or intimidated by the aspect of “losing money.”

Everyone has heard that the residential real estate market has crashed and burned. It might even get worse before it gets better, although it is pretty much lower than it has been for decades. This is a bad time for anyone selling real estate, but not for buying. If you have been pondering whether or not to buy but are either afraid of the market, fear no more. This book is going to tell you everything you need to know about buying a house in this economy or any other market.

Buying a house is not like buying stock. Both are investments and both should be considered long term investments. A house generally appreciates in value each year along with inflation. So does stock. Bank accounts also appreciate in value due to interest, although today’s interest rates are lower than the rate of inflation. If you let it be, however, your bank account will be worth more money in 10 years than it is today, assuming you are getting some interest.

A bank account is the most conservative way to invest. Bonds are also another conservative investment. Stocks are a bit more risky. Most investors will advise that you diversify your investments so that you have some conservative investments as well as some high yielding, risky investments. The younger you are, the more risk you can afford to take. As you get older, your investing should become more conservative. After all, you don't want to reach retirement age and find that you have nothing because the stock market crashed.

A house, however, is a different type of investment. Unlike stocks, bonds or bank accounts, a house is a necessity. We all need a place to live. And we have a choice between either renting a house or apartment from someone else or buying our own house.

America used to be a nation of renters. Most people rented an apartment or row house in cities and very few lived in homes of their own. Those who were fortunate enough to have a home either had a farm house that they built themselves, or a house in a town where they prospered as a merchant or in some other capacity. Many homes stayed "in the family" and were handed down from generation to generation.

The reason why people didn't buy homes is because it was very difficult to get a mortgage. We don't think that a mortgage is a big deal now, but back in the day it was considered a "debt." It is still a debt, but people's perception of being in debt has changed in the past 50 years. Today, we are used to buying things on credit. We are used to having a mortgage if we want a house. Fifty years ago, you had to have 50 percent down on a house before you could consider getting a mortgage. Then the bank would want extensive documentation.

Buildings and Loans, as seen in the film "It's A Wonderful Life" were not banks. They were the predecessors of Savings and Loans that were pretty much eliminated in the 1980s by scandals and the fact that they could not compete with mortgage lenders. A building and loan used to use the money of the depositors strictly to build homes for other depositors. The home owners would then have a mortgage and pay on their mortgage monthly, with interest. The interest would then be distributed to the depositors. It was a concept of neighbors helping neighbors. The building and loan would also build the homes as well. This entire concept got convoluted since its inception and thus was the end of the Savings and Loans.

Today, mortgage brokers make loans to just about anyone. There are no money down mortgages available, special programs for first time home buyers and even seller financing. You do not have to have perfect credit to buy a home. Even people with poor credit or a prior bankruptcy can get a mortgage. And mortgage lenders are dying to make a loan to just about anyone.

Getting back to the nation of renters. We gradually began owning our own homes thanks to the GI Bill that helped veterans of WWII. You can still see GI Bill houses today. They are usually small homes that were built by developers and purchased by vets who took advantage of this program. Gradually, subdivisions started going up all over the place and people began getting mortgages to buy homes. Somewhere along the line in the last 60 years, people decided that it made more sense to pay their mortgage instead of someone else's mortgage.

And if you are renting, that's what you are doing. Paying someone else's mortgage. There are many reasons why people rent, but only two make sense:

1. You are not planning on being in the area for more than a year or

two at the most;

2. You have just moved to a new area and are not sure where to buy

Any other reason (no money, don’t want the responsibility, etc.) is a poor excuse. These can easily be overcome.

Poor Credit?

You can get a loan even at a competitive rate. And the rate that you pay will be a lot less than when people were flooding the market to buy homes in the 1980s when the rates were 12 percent. You can still get a decent, competitive rate even if you have a bankruptcy. Go to a mortgage broker who will get you a loan on the secondary market.

Self Employed?

Look for a “no doc” loan. You can get these with as little as 10 percent down. You no longer have to prove two years worth of income. You don’t have to prove any income with a no doc loan. They will do a credit check, an appraisal and that’s pretty much it. No tax returns, no proof of income is needed on a no doc loan.

No Money?

How much are you paying now in rent? Unless you are paying “zero” and chances are that you are not, you are paying someone else’s mortgage. Not only are you not investing in your future, but you’re probably also getting hit with huge income taxes. Even with no money down you can buy a home in some areas. Even if you have to borrow the down payment, you can pay that back with the first year's tax return. And your mortgage payment will probably be the same as your rent.

Too Much Responsibility?

A car is more responsibility than a house. A car breaks down more than things do in a house and needs constant maintenance. It needs gasoline to run and has to have the oil changed. Also, you can get killed when driving your car or kill someone else. A house does not need as much repair, is something that you need to live as you need shelter and, as it is stationary, cannot move down the street and kill someone. Responsibility is part of life. Having shelter is necessary. If you cannot take responsibility for acquiring something that you need to live, you should really talk to a counselor.

Afraid To Miss A Payment?

What if you miss your rent payment? What happens then? If you miss your utility payments - what happens then? Again, you need a place to live. Why pay someone else's debt off when you can pay your own.

If you are planning on staying in an area for a period of time, you should buy a home. Especially with today's market. This is a buyer's market and the prices of homes are rock bottom.

Chapter 2 - Buyer's & Seller's Markets

You have heard the term "Buyer's Market" which is what we are in now. You have probably also heard the term "Seller's Market" Both have to do with basic economics and the law of supply and demand. This is the difference and how you should behave in both:

Buyer's Market

In a buyer's market, there are more homes on he market than there are buyers. This means that the supply far outweighs the demand and the prices of the products are lower. Economics 101 - when supply exceeds demand, prices drop. So in a buyer's market, which is what we have now, there are many more homes on the market for sale than there are buyers.

When you have a buyer's market, sellers get desperate to sell their homes. They are competing with a lot of other sellers who also have the same product to sell. It is as if you are at a flea market buying a cell phone. Everyone there has cell phones for sale and there are only a few buyers. But the people who have the cell phones are desperate to sell them. So what to do they do? The undercut the other guy. They begin lowering the price of their cell phones to as low as possible where they can still make a profit.

This means that the buyers can really get some good deals. In a real estate buyer's market, it gets even better. Because no one has to sell cell phones, but people have to sell their homes. Those who are selling in a buyer's market either have no choice or are desperate and panicking. This means bargains galore for buyers.

In order to take advantage of a buyer's market, you can offer a lot less than the listing price of the home. If you are working with a real estate agent, do not listen to the real estate agent and think that you have to bid high or the people will be "insulted." If they get that insulted, find another house. The real estate agent gets a commission off of the sale price of the home. The more you bid, the more money they can make.

If the real estate agent says something you like "I won't even make an offer like that, it's insulting." Thank them for their time and then tell them that you are going to find another agent. Chances are very good that they will make the offer. There are thousands of real estate agents that would jump at the chance to make any offer during a buyer's market.

So, during a buyer's market, you are better off to buy property at rock bottom prices and hang on to any property that you have. If you want to take advantage of new construction and move to a bigger house because of the buyer's market, rent your existing house out to other people instead of trying to sell it during a buyer's market.

Seller's Market

A seller's market is just the opposite of a buyer's market. This usually happens just as the economy gets a boost and after a recession in the real estate market, which is what we are in now. People have not been selling and buying in a long time. Then something happens, like the interest rates get lower or there is renewed faith in the economy, and a boom hits the housing market. Pretty soon, there are more buyers than there are houses for sale.

The last true seller's market in the United States was in the 1980s when interest rates plummeted down to 12 percent from 18 percent. People began buying houses like mad. Lenders were very busy and you would have to make repeated calls to get them on the phone. Title companies were overburdened with an onslaught of not only people purchasing homes, but actually for the first time, refinancing their mortgages. The 1980s sprouted a whole bunch of new businesses and made way for a lot of new title companies and mortgage lenders.

To give you an idea of what the seller's market was like in the mid 1980s, a home would go up on the market and would be on there for only a few days before they would have a contract. People would have "open houses" on their homes and get several different offers and have the opportunity of picking the best one. There were cases where people actually bid higher than the asking price for the home in order to secure the home.

The seller's market is obviously the best time to sell. Although we have not experienced a true seller's market throughout the nation for some time, we often see a seller's market in areas where it very desirable to live. There are still areas like this in the United States today, where they have a seller's market. These are usually either upscale neighborhoods and homes or moderately priced homes in really nice areas.

You can tell when you're in a seller's market in your area by the amount of homes on the market and the length of time they remain on the market. If you have a bunch of "for sale" signs sitting in yards all over the place and no one buying them, and the signs sit for months, chances are that you are in a buyer's market. If you see a quick turnaround in signs and sales, you can tell you have a good chance to sell. Coveted areas always have it much better than the rest of the nation.

If you want to buy during a seller's market, you are better off to buy new construction. New construction will usually appreciate in value quite a bit from the time construction commences to the time that it is finished. This is what people were doing when they were "flipping" homes. Investors were buying new construction in upscale neighborhoods, waiting a few months for the home to be completed and then selling it to a buyer at a profit.

Buying new construction is always better in a seller's market.

Today, we are in a buyer's market. Again, if you have been thinking about buying a house, there has never been a better time to do so than right now.

Chapter 3 - Getting An Agent

If you are going to buy a house, you have two choices. The first is that you can ride around neighborhoods that you like and look for "for sale" signs. Then you can call the agent that has listed the home and ask to see the home. The agent will be thrilled to show you the property as he or she represents the seller and will get full commission if you decide to purchase the home. This can work well in your favor as you can offer less based on that premise. This is because most agents make a deal with the seller that if they sell the home themselves, they get less commission.

In addition to possibly getting a better deal on the home, the plus side to doing it this way is that you get to see the outside of the home and the area in which the home lies.

The negative aspect of this way of doing things is that gasoline is expensive and you can spend a lot of time looking at homes that already have contracts on them. The "sold" sign does not usually go up until a few days before closing, if at all. Agents want you to call on the home so that they can sell you something else.

Another negative aspect of this way of looking for a home is that some people do not want "for sale" signs going up in the yard. Some people are very odd about their neighbors "questioning" them about the price of the home (even though this is easy to gain access to and the sale price is actually public knowledge). It also sometimes takes the agent a few days to put the sign on the lawn. You are actually missing out on the newest properties.

When choosing a real estate agent as a buyer, choose one that you like and who will be ready to show you a house at a moment's notice. You can have more than one agent looking for you, too. You are under no obligation to the real estate agent as a buyer.
You may think that, because you chose the agent and that he or she is so friendly to you, taking you to see all these homes and acting like your best friend, that they work for you. Wrong. They work for the seller. Your real estate agent does not have your best interest at heart - they are in this to make money. This is their job and they don't get any money unless they sell a house. They get a commission off of the sale of the home so it is in their best interest that you pay as much as possible for the home.

Pick a nice real estate agent who is available, but do your own homework on properties. Do not rely on the agent to "find the best deal" for you. Again, they want to get a real estate commission.

Chapter 4 - Finding A Mortgage Lender

Before you can make an offer on a home, you should have either a pre-approval letter or be pre-qualified for a loan. Most real estate agents do not want to waste time with people who want to look at homes but are not qualified to purchase them. Although, with today's market, they are a little less picky.

You should have an idea of what amount you can spend on a home and how much your monthly payments will be. You should talk to a few lenders to find out their loan packages.

If this is your first home, you have an option of getting a conventional loan or an FHA loan. If you served in the military, you can also get a VA loan. An FHA loan is backed up by the federal government and usually offers a lower interest rate than a conventional loan. A lot of sellers don't like dealing with FHA loans because of the fact that they are backed up by the government and require inspections. They also require the seller to pay points and expenses that are normally assumed by the buyer. This is usually reversed outside of closing.

A VA loan operates pretty much the same way only is backed up by the Veteran's Administration instead of the federal government. Again, a lot of seller's don't't' like dealing with these type of loans, although they do give the first time home buyer a break.

If you put less than 20 percent down on a home, chances are that you are going to have to pay PMI. This is premium mortgage insurance. PMI is not like home insurance or mortgage insurance for you - it s a policy that the lender is getting to insure them against loss if you default on your loan.

If you buy a home with a VA or FHA loan, you do not have to worry about PMI. This is because the federal government or Veteran's Administration is prepared to back up the loan for the lender. This can save you a substantial amount of money each month on your mortgage.

If you get a loan for $120,000 and have PMI, chances are you will be paying $130 a month for this charge. This is not tax deductible and will just be incorporated into your loan. If you got the same deal with an FHA or VA loan, you would save $130 each month (a $120,000 loan on a home where you put 10 percent down).

You can only use an FHA loan once. You can use a VA loan three times. After that, you have to go for a conventional mortgage.

Because lenders are so eager to make loans with today's market, make sure that you shop around for a good mortgage package. Be sure to ask what the bottom line monthly payment will be. The monthly payment quoted should include real estate taxes, homeowner's insurance and PMI as well as the principal and interest of your mortgage.

You should try to get the lowest interest rate possible, but because the rates are so low at the moment, stay away from adjustable rates. Interest rates are the lowest they have been in 50 years. Lock in at a 30 year fixed rate if you are planning on staying in your home for at least 5 years. If you are planning on moving in 5 years or less, you may opt for an adjustable rate mortgage that will save you money. You should not have to pay points in today's market. Points are based upon the purchase price of your home. Lenders used to require one or two points that were paid to get a lower interest rate. Each point is one percent of the purchase price.   This is cash that you have to pay up front for your home.

Points are paid one time only and are deductible on your income tax return. However, because of the current market, most lenders are not trying to get people to pay points.

After you have decided on a lender, you should get a pre-qualification letter or pre-approval letter. There is a difference between the two:

Pre-Qualified

This means that based on the information that you gave the lender, you are pre-qualified for a loan up to a certain amount. You can get this in writing or the lender can just tell your agent that you are pre-qualified up to a certain amount.

It doesn't take long to get pre-qualified. Generally a lender can even do this over the phone. You are not at the point where you need to supply documentation. A credit check is usually run so that they know how you are rated.

Even if your credit is very poor or you have had a bankruptcy, you can still get a competitive rate in today's market. You may have to go to a sub-standard mortgage company, but it can be done. And don't worry about them "selling" your mortgage. Who cares? Your payments are the same in any case. Chances are, if you are looking on the secondary market, your loan will not be sold as quick as if it was on the primary market.

Pre-qualification is easy and takes only a little bit of time. This is a good way to get started in looking for a house in your price range.

Pre-Approval

This means that you are willing, able and ready to close on the house. You have provided the lender with all necessary documentation and have been approved by the underwriter for the loan. You need only to find a home and close. Closing can usually commence as soon as a week or so after pre-approval. In today's market, it can even occur sooner.

A pre-approval letter is the best armor you can have when you begin looking for a house. This will give the seller an incentive to sell the property to you as you have already been approved for the loan and they need only get the appraisal and set the closing date. When looking for a new home, you are better off to have a pre-approval letter from the lender than a pre-qualification.

The pre-approval letter will have a stipulation. It will say how much you are approved to borrow and how much the home will have to appreciate at in value. It will be contingent on the home appraising out. This will be the only contingency to the letter. If the seller has priced his home competitively in the market, there should be no problem. If the seller has inflated his price, which would be really foolish to do in today's market, there might be a problem.

There can also be a problem in an area where the house prices are rapidly declining in value. This usually occurs in a blighted area when residents are desperate to sell. Buying a home in a blighted area is not really a good idea, anyway, and we will talk more about that when we discuss "location."

Before you go looking for a house, get a pre-approval letter or at least get pre-qualified. You will be in a better bargaining position if you have no contingencies on your real estate contract.

Chapter 5 - Where To Look For A Home

You want to look for a home in a location that is either up and coming or one that is firmly established and in which the housing prices are appreciating in value. You want to stay away from blighted areas that are neglected by the city or area in which they are in. These usually make a poor investment and some even depreciate in value. Although the home will generally be worth more in 10 years than what you paid, the better the area, the more increase you will see in your equity.

Equity is the amount of money that the home is worth on the market less any amount you owe on the home. Your home should appreciate in equity each year. If the market is hot in your area, the equity will rise quicker than if the area is going downhill.

Take a look at the area in which you wish to live and figure out the following:

- Where the growth is occurring
- Where are the most coveted areas in which to live

How To Figure Out Growth

If you are looking to purchase a home in a suburb, as most people are, then you should note where the growth is occurring. Take a look at the city and see where the undeveloped areas are. If you look south of the city, what areas are expanding? Take a map and look at the areas that have expanded over the two decades near your city.

If you lived in Chicago, for example, you would note that the growth was going Southwest and West. The growth was stagnant East of the city and North was pretty much all built up. If you purchased a property North of Chicago, you were going to pay top dollar, but were assured of a stable property value.

If you purchased property East of Chicago, you would see no real change in value. Housing prices did not rise or fall. They were pretty much stagnant.

If you went West, you saw a boom. The growth was going west and if you purchased a home in a suburb like Naperville 20 years ago, you saw the housing prices rise considerably in the past two decades. The same way if you went Southwest to an area like Orland Park.

If you went even further West or Southwest, you were getting property even cheaper and waiting for the boom to hit. In Chicago, a new expressway opened in the South, near the city of Joliet. This enabled growth in the South region as well. If you live in Chicago and were looking to find an up and coming area, you would look to the Southwest or West as that is the growth trend in this area.

Every city has an area where there is a growth trend. In order to see it, you merely have to take a look at a map and see the population differences since 1980 and today and you will see the growth trend. Some areas are leveling off and those are stable areas. Some areas are stagnant and have not changed much in past 20 years. Some areas might even be declining in property value and may be receiving an influx of crime.

Other areas are stable and thriving. In Chicago, this would be the North side of the city. This is a sure thing when it comes to property values.

Which Are The Most Coveted Areas In Which To Live

This is easy to figure out. They are the areas in which the home prices are the most money. Everything in real estate is based upon location. A shack in a good location will fetch more on the market than a really nice home in blighted location. And you are better off to buy that shack than the nice house.
When purchasing a home, look for the best house you can afford in the nicest location possible. If you cannot afford the posh neighborhood or area, settle for the one right next to it. You are better off with a smaller home in a good area than a palace in a blighted location.

Look at school districts, crime rate and median income levels as well as the prices of the homes in the area and how they have changed in the past few years. This will give you an idea on how nice the area is.

If you are seeking to buy a home in a small town, you have less choices. Small town homes have usually the "good side of town" and "the wrong side of the tracks." You can tell this by simply looking around the town and seeing the poor homes that look dilapidated and the homes that are well kept. Some small towns are all "the good side of town" and some small towns are simply "the wrong side of the tracks." If you are looking for a home in a small town, look for one that has some sort of industry and is a pleasant place in which to live.

Once you have figured where to look for a home, you can start actively looking in the area. You can do this with a real estate agent or on your own. There are some homes that are “for sale by owner” which will not welcome a real estate agent inside. In those cases, you will have to call the seller and make an appointment. If you decide to purchase the home, you will have to draw up a contract. This will be discussed in a later chapter.

Chapter 6 - Things To Look For In A Home

In addition to location, you should be looking for a home that obviously will suit your lifestyle. If you have kids, you are better off with a yard or some place for the kids to play. If you are by yourself, you can consider condominiums or town homes. You can generally get a condominium or town home in an area much cheaper than a single family home. This means that if you are considering buying a home for just you, or just you and a significant other, you might be better off with a town home in an area that is one step above the area where you can afford a single family home.

Of course you are going to have to like the layout of the house as well as the exterior look. When you are purchasing a home, however, you should also be looking at resale value. Although you may think it's great to buy a one bedroom house, this may be tough to sell when the time comes that you have outgrown the house and decided to move on.

Look for things that add to the value of the home for resale value. These include:

Three or more bedrooms. A three bedroom house will sell much better than a two bedroom house. A four bedroom house sells even better. The more bedrooms, the better the chance of reselling the house. If you have a choice between a two bedroom house with a large living room, dining room and kitchen and a three bedroom house with no dining room, pick the three bedroom house. You can eat in the kitchen,.

Two or more bathrooms. The more bathrooms, the greater the value of the house. Two bathrooms is great. One a ¾ bathrooms is okay, too. A three quarter bathroom is one where there is a sink, toilet and shower stall. A full bathroom has a shower and tub as well as sink and toilet. A half bath is one where there is just a sink and a toilet - this is usually called a 'powder room."

A basement. If you live in an area where there are basements in the home, you are better off to buy a home with a basement than one without. This does not mean a finished basement. Square footage is based upon living space above ground. It does not usually entail a finished basement, although for resale value, a finished basement does help sell the house. But if you have a choice between a crawlspace and a basement, choose a home with a basement.

A garage. In most upscale neighborhoods, they have a two or three car attached garage. An attached garage is one where you can go from your home to your car without going outside. A detached garage is one where you have to go outside to get to the car, even if the garage is technically attached to the house. Years ago, people had one car and they parked it in the driveway. There weren't a lot of garages built. Then people started building detached garages. Some of these only hold one car. Some hold two cars. Take a look at the garage in the house you are purchasing. Even if you only have one car, you are better off to buy a house with a two car, attached garage, than one that has no garage or a detached garage.

Central Air. If the house has gas forced air, central air conditioning is not a big deal, but it is a plus if you live in an area where it gets considerably hot in the summer and a must. A house with central air will sell better than one without, so if you have a choice, pick one with central air, even if you hate having the air conditioning on because it bothers your sinuses. Again, think of resale value.

Upgrades. This includes things like a new roof, a new furnace, new windows, maintenance free exterior, updated plumbing, updated electric wiring, updated kitchen and bathroom. These upgrades all add to the value of the home and to resale value.

Ground. The house should have a decent size yard, or at least be comparable to the other homes in the neighborhood.

Things that should not concern you are the following:

The color of the walls. They can be painted. They can be papered. You can do cosmetic treatments to the house once you are in.

The carpet. This is a cosmetic matter just like the color of the walls. It can be ripped up and new carpet installed. It does not add to the value of the home and you are better off to buy a home in a nice area with orange shag carpeting than one in a blighted area with brand new carpeting.

The color of the appliances. Again, another cosmetic effect that can be easily remedied. This goes for the color of the tub, tile and light fixtures. Do not let cosmetic effects sway you from buying a good house in a nice area.

Dirty house. This is a turn off for anyone looking at a house. There are people who are allergic to pets and those who abhor cigarette smoke. Furthermore, no one wants to buy a dirty house. However, you can usually get a good bargain with such a house as there are those who will not see past the dirt and will walk out. For about $500, you can get the house cleaned, including pet smells and cigarette smells out.

One caveat to the above, however, is to be sure that you get a home inspection. You should do this with any house you buy, but if people neglect the home to the point where they couldn ft even be bothered cleaning it up before they proceeded to sell the house, you have to wonder what else they neglected.

Another thing that you want to look for is a house that blends in with the neighborhood. Skip the gbiggest house in the neighborhood h in favor for one that is either the smallest in the neighborhood or fits right in. If you have the money for gthe biggest house in the neighborhood, h you should be looking one step up in another neighborhood at a house that fits right in.

The reason you don ft want the ebiggest house in the neighborhood h is for resale value. Houses are appraised at the amount of the homes in the vicinity. If you are buying the biggest house in the area, the smallest house in the area is dragging the value of your home down. You are better off to have the smallest home in the area and allow the biggest house to raise the value of your home.

Chapter 7 - Things To Stay Away From When Buying A

Home

There are a few things you should stay far away from when buying a new home. They include the following:

Mobile homes. A total waste of money. You might as well live in your car. Mobile homes depreciate in value just like a car and you never really own it because you have to pay a fee for the lot. The only exception to the mobile home rule is if you are planning on living in a retirement community that is all prefabricated homes (these are more stationary than true mobile homes) or if you own a lot of land and want to construct housing that can be removed at a later date. Other than that, you are better off renting. At least if something goes wrong in the home, someone will fix it.

Blighted neighborhoods. Areas where there is a lot of gang graffiti are not a good investment. There was an American television show that broadcast in the late 1970s about a couple who decide to sell their home in an upscale neighborhood and buy a run down home in the gang infested area where the father grew up. It was about the kids assimilating themselves with their new “culture.” This was a fabrication and even the public wouldn’t buy it because the show only ran one season. People want to move out of neighborhoods that are crime ridden and gang infested because they fear for their safety. Stay away from blighted areas.

Unsightly Menaces. This can be anything from the air raid siren sitting in the back yard to a water tower in the back yard. Also stay away from homes backing up to electrical wiring. These homes might be cheap, but there's a reason why they're cheap. And that's because no one wants to live in them. Stay away from homes that have unsightly menaces or, are themselves, an unsightly menace. If the home is covered with different colored stones that would be impossible to remove, or has two different color brick or something else that is permanent and makes it look unsightly, you are better off to stay away from such a house because it will be tough to unload.

Toxic mold and structural defects. When you are buying a home, get a home inspection. If the inspection reveals that the home is sitting on a cracked foundation or has toxic mold, pass it up. Unless you are prepared to tear down the structure and rebuild, leave this to someone else.   Toxic mold can make you and your entire family very sick. It is not worth living in a house that is overrun by toxic mold even if it's free. A house that has severe structural defects will end up costing you a lot more money than it's worth. Make sure that the house is structurally sound and that you can afford anything that is seriously wrong with the property.

No land. There are some homes that have no backyard and a large front yard or virtually no yard. They usually sit awkwardly on a corner lot and were built before the property values increased and the municipality had a chance to make some rules about how much ground each house should have. If all the homes in the area have backyards and the one you are considering does not have a backyard, you should consider a different home. Even if you have no children or pets, you should think about resale value.

Flood plain. Do yourself a favor and stay away from houses that are in a flood plain. You need special insurance for these houses and unless you're a duck, you probably won't like the idea of having water in your house every time it rains. Houses located in a flood plain may also have toxic mold as mold needs moisture to grow.

Houses on a busy street. Stay away from houses that are located smack dab on busy streets. These do not sell as well as those located on quiet streets and generally are priced below the market. If you want to make a good investment, choose a home that is on a quiet, residential street.

Try to look for a home in a nice, quiet neighborhood that does not fall into the categories above. Remember to look for resale value when you are buying your home. Even if you are planning on staying in your home forever, you should realize that times and circumstances change and that you might, at one time, have to sell. You do not want to be sitting on the property for a long time because it is not up to par with the other houses in the area.

Chapter 8 - Making An Offer

Once you have found the home that you want and are ready to make an offer, you should consider the following:

- How long has the home been on the market?
- Why is the seller moving?
- How many other homes like this are also on the market?

All three of the above criteria are important because the affect the price that you can offer the seller. Let's take them one step at a time and see why they are so important:

How long has the home been on the market?

If the home has just been listed, chances are that the seller is going to want to wait it out a bit to see if someone will come in with a good offer. They are not likely to take the first offer that comes along if it is lower than the asking price. And in this market, you want to be able to offer significantly lower than the asking price.

If the home has been on the market for a long time (in this market, that is greater than 9 months) than chances are that there is something wrong with the property (such as structural damage) or that they just won't budge off their asking price. You can try to make an offer, but chances are that you are not the first to do so and that they will not take a low offer. In today's market, you should take at least 10 percent off of the asking price in your offer.

Why is the seller moving?

If the seller has already vacated the house, and it has been vacant for a while, it may be that the seller has already relocated and is not in a hurry to sell. If the seller is still living in the house, you should note why the seller is selling.

There are a number of different reasons why a seller decides to sell a house. They should all have the following significance to you:

Empty nesters. Their children are grown and they are downsizing. This means that they can afford to wait it out a bit and you're probably not going to get the deal of the century. They've probably paid off the mortgage and want the biggest profit they can get.

Transferred. This means that they have to get out within a certain period of time. They are more apt to make a deal.

Divorce. Either the court decreed that they have to sell or they are selling to pay their lawyers. Look for potential cosmetic damage when they finally leave as they will be unhappy about leaving their home. You can, however, get a good deal when there is a divorce going on. You may have to wait a bit longer for an answer as the two attorneys for the couple duke it out.

Bought their dream house. This means that they are motivated and dying to get rid of their home so that they can move. This is an excellent opportunity and this house, unlike the divorce house, will have good karma - if you believe in that sort of thing. It's always nice to get a bargain off of someone's good fortune (similar to the empty nesters) than someone’s misery (as in the divorce).

Foreclosure or about to be foreclosed upon. If they are in the process of foreclosure, then you can offer significantly less for the home. If the house has already been foreclosed upon, it will be vacant. There might be cosmetic problems with the house such as a mess all over the place, light fixtures removed and holes punched in walls. People are not happy about getting tossed out of their homes. These are usually just cosmetic damages, however, and can easily be repaired. If they are in the process of foreclosure, they will be glad to have you buy the house before the bank takes it to save their credit. Even if it means that they have to bring a check to closing. You can make an offer of about 20 percent less than the listing price. You can always come up, you can’t go down.

How many other homes like this are on the market?

If you are looking for a home in a coveted area and this is the only one for sale, guess what? You fre going to pay a lot more than if you are looking for a home in an area where every other house on the block has a gfor saleh in front of it. The more supply, the less money the home is worth. Remember that when you make your offer.

When it comes to making an offer, you need to have two things:

- A contract
- Earnest money

Both of these prove that you fre serious about making a deal. The contract can be a real estate form contract that is used in your state, a George E. Cole legal form or a contract prepared by an attorney. Unless you have sufficient knowledge about real estate contract law in your state, you should have the real estate agent prepare the contract for you or your attorney.

If you are buying a foreclosure, you will need a contract as well as a cashier fs check for the earnest money and a pre-approval letter from your lender. It will take longer for this process as the bank reviews all bids and selects the best one.

If you are making an offer for a gfor sale by owner h property, then you will need an attorney to draw up the contract, unless you understand real estate law in your state. An attorney will usually charge a few hundred dollars to facilitate the purchase of your home and will give you a peace of mind that everything was done correctly. If you are unfamiliar with real estate law, get an attorney.

If you are using a real estate agent, he or she can draft the real estate contract for you. This is one aspect of real estate law that they can practice and they will also be able to explain the contract terms to you. Again, do not allow the real estate agent to dictate the price to you. Come up with a price that you feel comfortable with so that you can get a bargain.

Chapter 9 - The Real Estate Contract

There are a few things you need to know about the real estate contract. This is generally a form that gets filled in by the real estate agent. You will have to name a price that you wish to offer and the amount of money that you plan to borrow. The earnest money is usually a small percentage of the amount of the contract and, when making an ordinary offer, it paid upon acceptance of the contract. If paid on a foreclosure, it is due at the time the contract is presented.

There are usually two contingencies that a real estate contract will require. One is that the home appraisal meets the price of the home. This is usually built in to the real estate contract but you will want to be sure that it is added into your contract if it is not already there.

There is also a contingency for title insurance. This means that the seller must provide the buyer with a title insurance policy that will insure that the seller is able to sell the house and that the buyer purchased the correct property.

Other contingencies that exist with a contract are those for financing. This is usually filled in on a contract and gives the buyer 30 days or so to get approved for financing. If you have a pre-approval letter, you can skip the financing contingency, although you are always better off to have this as part of the contract in case you want an □ gout.□ h

You should also have a contingency for a home inspection. This is important even if you are buying a new home. The house should pass the home inspection and show no significant structural damage. This can be worded in the contract. It also gives you an □ gout□ h if you want to get out of the contract for some reason. Housing inspections are rarely perfect, if ever, and there is bound to be some fault with the home, such as the faucet leeks. If your contract is contingent on passing the home inspection, you can ask that the seller fix every little thing on the inspector□ fs report or get out the of the contract.

Another contingency you may want is the attorney review contingency. This gives your attorney some time (usually three days) to review the signed contract. This does not go into effect until the contract is signed by both parties. The attorney cannot adjust the price.

Other aspects of the real estate contract include the items that are being sold with the house as well as tax prorations and closing costs. There will also be a time element involved in the contract so that you cannot linger forever upon closing. The seller gets to pick the place where the title insurance will be purchased and where the closing will take place.

Another contingency that is sometimes seen in real estate contracts is a □ gcontingent on sale□ h or □ gcontingent on close.□ h If a buyer has another house to sell or is waiting for their house to close, a rider is attached that gives the buyer a certain amount of time (usually 90 days) to sell or close (usually 30 days) on a house.

As the buyer, you will be the first to sign the real estate contract and then your agent will present it to the agent of the seller. If approved, the seller will sign it and you will each get a copy (the contracts are usually signed in duplicate).

The seller has three choices when presented with your contract. He or she can refuse the offer by simply not signing the contract, they can counter-offer at a higher price by crossing off your price, adding their own and initially, while signing the contract, or they can accept the contract as is and sign it. They can also make any other changes in the contract as long as they initial the changes. The contract then comes back to you. You can either accept the changes, tell them the deal is off, or make further changes, initial and sign again. In some cases, the contract goes back and forth a few times before it is fully negotiated between the buyer and seller. Rare is the case when a contract is not amended in any way.

Once the deal is set, you are then ready to start the closing process.

Chapter 10 - Getting Your Financing Set

Once you are set on the purchase of your home and the contract has been approved by the seller, you must then forward the contract to your lender who will schedule an appraisal of the house. The appraisal usually does not take a long time and will determine the value of the house based on comparisons in the area.

You should also schedule your home inspection. If you are using a real estate agent, ask them to do this for you.

Your responsibility is to schedule the real estate inspection and get your financing situation. It is the responsibility of the lender to schedule the appraisal.

The seller will have the responsibility of ordering a title commitment and a survey. If the property is a condominium, no survey is required. You are entitled to a copy of the title commitment and survey prior to closing for review. If you are using an attorney, your attorney will get the title commitment and be able to review it for you.

Your real estate agent cannot act as your attorney and review title. Neither can your lender. When you go to the closing (usually held at a title company) , the escrow officer who facilitates your closing cannot give you any legal advice or explain any documents to you. If you are unsure about signing documents, you should hire an attorney.

You should be aware, however, that if you are getting a mortgage, your lender will review the title commitment and survey and make sure that everything is in good shape before proceeding. Your lender has just as much on the line as you do when it comes to the deal. In some cases, they may have more.

To get your financing set, you will need to provide your lender with documentation about the money that you are planning to use for a down payment. This entails a bank statement. If the money is a loan from a family member, you need to provide a gift letter stating that the money is a gift and they do not want to be paid back.

You are also going to need two year□ fs worth of tax returns and recent pay stubs for any and all income you are claiming towards your loan. In other words, you have to prove that you can afford to buy the house and pay for it.

You will also need employment verification. This means a letter from your employer stating that you work at the company and should be there for the next 12 months. This is a pre-set form that your employer completes and faxes back to the loan company.

Depending on the lender, you will need three to six months worth of bank statements. A computer print out is fine. This should reflect your income and bills.

If you are going □ gno doc□ h this means you will not need employment verification, bank statements or tax returns. The lender will still run a credit check. If you have items on your credit report that need explanations, you will have to provide the lender with written letters or documentation. If there is something on your credit that does not belong to you, you will have to sign an affidavit that states this is not your item and show proof of a dispute with the credit bureau.

If you just deposited $10,000 in your bank account, the lender is going to want to know where that money came from. Lenders are getting very strict, especially when it comes to large sums of cash being deposited into a bank account. This is partly due to new regulation passed with the Patriot Act.

Once the lender has all of the paperwork, they will submit your file to underwriting and you will get a formal approval. If you have been pre-approved, this means that you have submitted all of the paperwork and they only need the appraisal, title commitment and contract before they will issue a formal approval. Once you have been formally approved by the lender, you are ready to close.

Chapter 11 - The Title Insurance

The title insurance is like insurance that you have on your car. In this case, an underwriter is insuring that the house that you are buying is indeed the house that you are buying and that the sellers have the right to sell it to you. It is also insuring that the taxes have been paid and that there are no liens or encumbrances on the property.

The seller has the obligation to give you a title insurance policy called and gOwner fs Policy. h This is a policy that will state your name as the owner, the legal description of the property (which is different than the address) and the tax number for the property. It will also state any exceptions on the policy. This is what is important as you want to make sure that there are no encumbrances. These would be brought up in the exceptions portion of the title.

To learn about tile insurance can take all day. Your lender will also be getting a title insurance policy that you will pay for. It is called the glender fs policy. h It will insure their interest but have the same exceptions that you will have on yours. If there is anything amiss, the lender will want it removed from the title policy or insured over.

Some things that can be wrong with the title include:

Liens on the property. If the owner did not cut the grass and the municipality assessed a fine, it will be a lien on the property. If the owner purchased new siding and didn’t pay the installer, a lien will be on the property. You do not want these liens being on the property so you will tell the seller’s attorney to have them removed before you take title. You are entitled to clear title to the land, without liens.

Seller not of record. This means that the seller does not have the right to sell the property. The only way of knowing who is in title to the property is search the recorded deeds. This will give you the owners of the property all the way back until the property was built. The title company will reflect the current owner and if it is not the person who signed the contract, they will have to prove that they are legally entitled to sell the property.

Taxes not paid. Again, you are entitled to have clear title with paid taxes. The seller will have to provide proof of payment or the taxes will have to be paid from the proceeds of the sale.

Encroachment. This shows up on the survey and on the title. This means that there is something encroaching on the property. It can be as simple as a neighbor's fence or something as serious as a neighbor's garage. It makes a difference if it is a permanent structure or a removable structure. The title insurance company will not insure the property that is encroaching on your property. This is the seller's problem and they will have to ask for an endorsement over the encroachment.

Covenants and Restrictions. If these have been recorded against the property, you need to find out what they are and what they restrict. Some of the restrictions that can affect your ownership of the property would be if you could not have a shed outside, cannot park a boat or truck in the driveway, cannot erect a fence, cannot put on an addition, or other factors that can restrict your use of the property.

You should get a copy of the recorded instrument so you can see what, if anything, will affect you.

Mortgage on the property. All existing mortgages should be paid off before you take possession of the property. When a mortgage is paid off, the owner is sent a release of mortgage. This document is supposed to be recorded in the country where the property is located, but many people do not follow these instructions. There may be a mortgage on the property that is old and does not even belong to the current owners. Again, it is up to the seller to remove this from the property.

If you are unfamiliar with title insurance, you should have an attorney look over the title commitment. Even if you do not have the attorney come with you to the closing, he or she can at least take a look at the title for a lower fee.

Chapter 12 - The Survey

You should take a look at the survey of the property and make sure that the metes and bounds legal description matches that on the title commitment. You should also be able to see how the house is situated on the survey plat and if there are any encroachments on the property.

The survey is ordered and paid for by the seller and is something that the lender and title company will require. The seller fs attorney has a responsibility to give you a copy of the survey prior to the closing if you are representing yourself. If you have an attorney representing you, the seller fs attorney should give him or her the survey.

Your real estate agent cannot go over the survey with you and give you any sort of legal advice. If there is something wrong with the survey, your lender should catch it. But they might not. This is why it is important to either have knowledge of surveys and real estate law or hire someone to help you out who does have some knowledge.

Chapter 13 - The HUD-1

The HUD-1 is the settlement statement that is provided at the closing. It is also referred to as a RESPA or a closing statement, depending on what region of the country in which you live. This is a pretty standard form that lists all of the fees, tax prorations, escrows, earnest money and just about every fee that is related to the purchase of the property.

There is a seller fs side to this statement and a buyer fs side. Both sides must balance. The buyer has debits and credits and the so does the seller. As a buyer, you will have the purchase price of the home and settlement and mortgage charges as your debits. If you live in a state where taxes are paid in arrears, you will have a tax proration for a credit as well as be credited with the amount of the mortgage and earnest money.

Settlement charges will include the fee to close the property, which is also called the escrow fee. This is generally paid for by the buyer. In most states, the seller pays all transfer tax stamps for the state, county and, if applicable, the municipality. In some states, the seller and buyer split this fee. This would be included in the settlement statement.

You should not have to pay more than $150 for the escrow closing. You can negotiate this with the seller, too. You can ask in your contract that the seller pay any and all fees related to closing.

Also included in the settlement charges will be the fee for the lender� fs title policy. This can be a few hundred dollars and is determined by the price of the home. This is buyer� fs cost because you are the one who is choosing to get a mortgage.

Mortgage fees can add up. You will have the application fee, points (if any) and miscellaneous document preparation fees. THESE ARE NEGOTIABLE. This cannot be stressed enough. Lenders are cutting each other� fs throats to write mortgages. Negotiate the fees.

Lenders can fee you to death - especially if you are going to a secondary mortgage house. You will be paying an underwriting fee, document fees, application fees, credit check fees, etc. Tell the lender that you want to know the fees upfront. This way, you are not surprised when you get to the closing table and see how much money you are paying in fees.

The lender will probably also escrow for your taxes and insurance. They usually take 6 months worth of taxes to put in escrow as they will be paying your real estate taxes. They also take one year� fs worth of homeowner� fs insurance premium. This will sit in an escrow account from which the payments will be made. This is not mandatory that you have the lender escrow for taxes and insurance. If you have 20 percent equity in the home, you can pay this yourself.

The HUD-1 will be presented to you at the closing. It will actually be prepared prior to the closing by the title company. The escrow officer will give you a copy of the HUD-1 for your file. You have a right to question anything on this statement, but will have to sign the statement before the funds are disbursed.

Chapter 14 - The Closing

The day finally arrives when you get to the closing of your first home. It is up to the seller (usually the seller□ fs attorney) to pick the place where the closing will take place. This is usually at a title company, but in some cases, it can be at the office of the seller□ fs attorney and an escrow office will travel to the attorney. This all depends on the title company that is used.

Prior to the closing, you will need to contact the title company and find out how much money you should bring to the closing. In an ideal world, they would contact you a day or two ahead of time. In the real world, you will be calling them up until 5:00 p.m. the night before your closing which is 9 a.m. the next morning to get the amount that you need to bring in. If you have an attorney, the attorney should be finding this information out for you.

Once you understand how much you need to bring in, you will have to go to the bank and get a cashier□ fs check for the amount. The title company will not take a personal check. You can have the check made out to yourself so you can just endorse it over to the title company at the closing.

You also need to bring a photo ID and proof of homeowner□ fs insurance to the closing. You should get a receipt and an insurance rider from your agent that proves you have homeowner□ fs insurance on the house.

At the closing, you will have to sign a series of documents. This includes the lender’s documents, which are usually in a large stack, and the title documents. The lender’s documents usually include a lot of legal forms, most of which pretty much state that you give them the right to make any corrections or agree to sign again if there are corrections needed. You will also have to sign the Truth in Lending Form, the Mortgage and the Note. The mortgage and note are recorded instruments and must be signed exactly as stated. The Truth In Lending gives you the total amount that you will be paying back in interest as well as a higher interest rate because it is the compounded daily rate. It is a very scary form and is also required to be mailed to you prior to the closing. You will also sign a typed up application.

If you have a common surname, you will probably have to fill out an affidavit stating that you are who you say you are. This is because there are probably a lot of people with your name who have liens and judgments against them and you do not want to be confused with them. This is a standard form.

Closing documents will be the HUD-1, the seller’s closing statement and the tax transfer forms. Most states and counties and some municipalities require the seller to pay a tax whenever the property is sold or transferred as a way to collect more revenue.

You will get an Affidavit of Title which is proof that you purchased the property. You will not receive the deed as it will have to be recorded and will be mailed back to you after recording. The affidavit of title is the deed until then.

You will also get a Bill of Sale. This is for all of the things that you are buying that are not technically part of the house. These are usually listed on the contract and include things like appliances, draperies, ceiling fans and garage door openers. In some cases, people have other items that are sold with the house and some real estate agents go overboard and write down things like gwall to wall carpeting. h

Copies of all the lender fs documents will be provided to you along with the copy of the closing documents. You do not need copies of the tax transfer forms or anything else that you are not paying for. What you want to take away from the closing are the following:

‡ The original Affidavit of Title signed by the seller (you do not sign this document)
‡ The original Bill of Sale signed by the seller (you may sign this document)
‡ One of the original HUD-1 forms singed by both you, the seller and the escrow officer
‡ One of the original Seller fs closing statement fs signed by you and the seller
‡ The title commitment with the intent of getting a policy in the mail
‡ A copy of all of your lender fs documents including the mortgage and note
‡ The survey
‡ The appraisal
‡ Any other pertaining documents (condominium bylaws, etc.)
‡ Garage door openers
‡ Keys to the house

Once you have received the keys, the closing is over. You can pay your attorney by check or you can include his or her fee in the settlement statement. If you are getting an FHA or VA mortgage, you will have to pay him outside of closing.

Your mortgage is paid in arrears. This means that it will be due on the first of the month for the month that preceded it. If you close on April 15th, the amount from April 16th to April 30th will be included in your settlement charges. Your first mortgage payment will then be due on June 1st (for May). This gives you time to get yourself established. You should seriously consider having your mortgage taken out of your checking account each month. Although the mortgage is due on the 1st of the month, you have a 15 day grace period. This means that you can wait until June 15th to pay your May mortgage. However, if the 15th falls on a Sunday or Holiday, some lenders will penalize you for making a late payment if you pay on the 16th.

It is not difficult to own a home. It is not only easy to purchase a home, especially in today fs market, it is a good investment. If you follow the instructions in this book, you will have not only provided yourself with shelter which you need anyway, but also made a solid investment that will continue to accumulate in value for the years to come. You will also have given yourself a tax break as well. The interest that you will pay on your mortgage can be deducted from your income tax as well as the property taxes. Any points or closing costs can be deducted for the year that you closed on the property.

Good luck in buying your first home!

UnselfishMarketer.com