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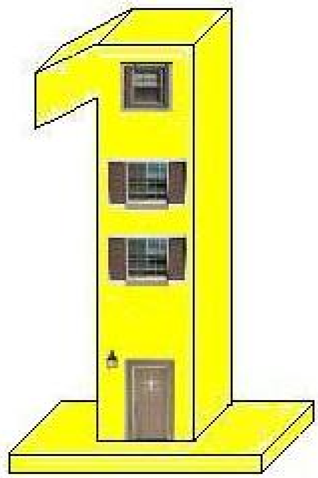

A Guide to Buying Your First Home

By Miss Liberte Belle Starr, GRN
and a guy named Bob

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WHAT ABOUT BOB

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His training has included courses from UCSD, San Diego Writers Conference, Maui Writers Conference, Mike Ferry, Susan Hyland, Floyd Wickman, Zig Ziglar, and Charles Clark. He holds a Bachelor's degree from the San Diego State University School of Business with Honors in the Marketing Emphasis program. Courses in Accounting, Materials of Construction, Space Planning, Business Law, and Architecture have been accomplished at Santa Monica City College, Denver University, and Palomar College.

Note: If you are thinking about a **San Diego County, California** real estate transaction, he would love to hear from you.

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INTRODUCTION

In life some symphonies you will only perform once. Your mother bears you once, you pass away once, and your earliest gaze with wonder at your first child is a once in a lifetime experience. Buying your first home slams you into that kind of event. With little preparation, there seem to be few enough people around that can tell you what is about to happen. Oh, afterward they will say, “Yeah that happened to us, too.” Then you just want to scream and ask, “Why didn’t you tell us about that?”

My wife and I, like so many before you, have been through that mill. (A mill is any kind of grinder that turns something into a powder.)

Ford Prefect said, “It's unpleasantly like being drunk."

Arthur asked, "What's so unpleasant about being drunk?"

Ford, "Ask a glass of water."

(From the Hitchhiker’s Guide to the Galaxy by the late, great Douglas Adams)

You will absolutely feel like you are being drunk in a mill at least once during the process of buying your first place. But in the long run, it is truly worth it. Donald Trump did not make his fortune on TV shows; he did it in real estate. You may choose to follow in his footsteps. And fortunately, you only have to do this first transaction once.

This little book will give you the physical steps and emotional conundrums to work through, how to handle them, and more importantly how to turn them to your advantage.

NOTE: Different states have different methods of handling the aspects of a real estate transaction. Some use the title company, some escrow companies, and some use real estate attorneys. In this book we will be using the term “Escrow” in the place of all those disinterested third-party agencies that handle the movement of paperwork and monies to complete the transaction.

So let’s begin . . .

CHAPTER ONE

This Is Not Going to Be Easy

Buying a home is a lot of work; I won't kid you. If you search among your family and older friends you will find a couple that have never purchased a home though they are in their fifties or sixties. Quite possibly they faced the challenges of that first transaction and just gave up.

You will be asked to meet people, sign documents, obtain records, and other tasks any of the seven days of the week, holidays included, right up until escrow closes. Some of the tasks may seem odd or disconnected. Don't pass judgment. Just get them done. Here are some real transaction examples:

1. Write a letter explaining why your parents waited until you were three months old before obtaining a social security number.
2. Write a letter explaining why your parents obtained a social security number for you at birth instead of waiting.
3. Explain why you became a Dentist after going to Dental school for four years.
4. Please have the wife from whom you are separated write a letter explaining why she quit her job in March and what she plans to do for work now.
5. Have your Commanding Officer write a letter explaining your potential for continued enlistment and whether you will be promoted in two years.
6. Please provide all pages of your tax returns for the past five years.
7. Have a Certified Public Accountant draw up a mid-year accounting of your cash flows, balance sheet and profit and loss for the year to date (this is in February.)

These are all real case file requests. You can see that the list could go into infinity and beyond as the Buzz Lightyear's in loan processing gather what they need for a successful assault on the moneylender's doorkeeper – The Underwriter.

The Processor's job is almost an art. Let me explain why. They must give the Underwriter everything they need to get the loan approved. But, each item they give the Underwriter provides another peek at who you are and has the potential for raising other questions. These are questions that, at the very least, you don't want to spend the time writing yet another letter of explanation for. At the most, could cause the loan to be denied. For this reason, the Processor will hold back on asking you for some items in the hopes that the Underwriter will not ask for them in turn. Later, maybe MUCH later, they will ask for them and your first question is, "I can't believe you are only asking for this now, so late in the process! Why didn't you ask for this before?"

Again, let them perform their art. Just get them what they need as quickly as you can when they ask for it.

When things get really tough you may start to question the qualifications of the players in this incredibly challenging game. Almost every time, and especially on this your first home, PLEASE remember you are the least experienced member of the team. Most, if not all, of the other players have been at their jobs for years and handled hundreds or even thousands of transactions. Like you, this is also true about your parents, your Uncle Louie, and your Cousin the Licensee who has done three transactions in six years for other family members. They are more experienced than you, but not by much. The only exception may be your Realtor or the seller's Realtor and we will discuss that in Chapter Four.

Here is how to play it when confusion or frustration sets in. Smile, sound friendly, ask how their day is going and then as questions until you are satisfied that you understand. Over my years in the business, once even physically, I have seen files get "lost" for days or weeks. When you push a Processor or Underwriter, they can choose to categorize you as a PITA, Pain In The A… and suddenly all the help you need, your place in the queue of loan files on their desk, and their desire to be your buddy are all gone. It was said, ney sung, best in the play/movie Sound of Music: "A spoon full of sugar helps the medicine go down." Trust me, most of the Buyers these people work with are troublesome and don't appreciate what is being done for them. If you are nice, courteous, and patient they will dance for you. And if you are using a Realtor, don't turn them loose on the same people. The Realtor usually cannot help the process very much.

Encouraging Escrow and Lending along is an art. Just the right amount of push can be helpful. Like this. "Hi Melanie. It's Jacquie Smith. We're buying the home on Starbright Circle. How are you today? (Pause and wait for the answer.) I was just wondering is there anything else I can get for you that would help you?"

Here is how not to do it. "Is this my Processor? We've been in escrow for six weeks. Why isn't my loan approved yet? Why is this taking so long? Don't you have enough help there? If you don't think you can do this then we will just have to get someone else."

At the very end of the process the Lender's people may be able to provide extraordinary help for you. It is then that you want them to remember you as "those nice people" because what they do can affect you financially and emotionally.

I have seen people that have absolutely no right buying a home get upset about requests for information. They had a bankruptcy three years ago, followed by more late payments, they are behind on their child support, have a 42/59 debt to income ratio, own three cars for two people (all on payments) and $120,000 in student loans. Then THEY get upset when the processor asks for two years of tax returns. Be honest with yourself about your qualifications. If your situation is a little tricky, you should be <u>very</u> grateful that these hard working folks are working even harder to get you qualified.

Just for a moment, I want to show why you should appreciate the United States of America. An acquaintance of mine sells foreclosure real estate to Europeans. He was giving an evening seminar in Germany and started talking about 30-year fixed-interest-rate loans. A man jumped up and shouted, “HE IS LYING! THERE IS NO SUCH THING!” The speaker calmly asked, “Do you know anyone in America that owns a home?” The heckler said, “Yes I do.” The speaker, “Do you have a cell phone on you? Then call and ask them” – and he did, right then and there. After hanging up, the heckler yelled, “HE’S A GENIUS!” and sat down.

There are very few countries in the world where you can get a fixed rate loan. Fewer still with interest rates where ours are. Practically none that permit a low down payment like our FHA program. In many countries you have to pay cash for the home. Maybe you can get a 50% loan. In a small percentage you can get a 75% loan. Families save for decades to buy a home. But, you live in America.

Also our quality of construction, the variety of homes from which to choose, the types and variety of floor coverings, fixtures, moldings, windows, furniture, draperies, and the list goes on, are the best in the world. Though our city building inspectors are expensive and tough, it has lead to some of the highest quality homes in the world.

Your ability to express appreciation for all the players in this process will go a long way toward a successful transaction for you.

You can obtain great strength for this effort by knowing what you want in a home . . .

CHAPTER TWO

Why are we Doing This?

The logical answer is – because we want to own a home. But there are more reasons and they go deeper. If you can completely answer this question, those answers will smooth the house hunting process. The process will beat you up, but having a clear picture of your big goal and the little goals within it will give you the strength you need to succeed.

If you live in Manhattan, Honolulu, or San Francisco, where land is scarce and prices are almost too high to believe, you may accurately be thinking about future profits. This is not a bad goal for those areas. If you live in Dallas, St. Louis or Detroit the rate of appreciation on a home is just good enough to stay ahead of inflation. So in these areas future appreciation would not be a good primary goal. Know your market and research the average price of homes like your target over the last thirty years.

Owning a home can be a great strategy for your retirement. If you are 25-35 years old, that seems like a long way off, doesn't it? Here is a real estate secret that will help you see how that long range goal fits into your near term plans. As you pay off the loan in your first home you build up equity (the amount of the home's value that you own after the amount owed to the lender.) Now you may not stay in this home forever, but the equity you built up will go with you in your purse or pocket when you sell it. You would most likely take that equity to put down on the next home. Over a lifetime this builds up a very nice nest egg, which you of course will support with diversified investments in other areas like stocks, bonds, hard investments and perhaps other real estate.

Remember what your mom or dad told you – buy low and sell high. So don't have all of your money in the house because you may end up having to sell at a low point way out in the future, because of a change in the economy, a health condition, or a family need. The more wealth you have, the easier it is to time when you will sell any of those assets.

So for most of the folks in America the main purpose for buying a first home is to have a place that is truly yours and not one belonging to someone else. If I want to hang a picture, paint the front door red, plant a tree, or put in a spa I don't have to check with anyone. My little castle for me and mine. I can tell you that things change when you get your own home. It changes who you are. You are now an owner of something substantial and have gained control over at least one aspect of your life in a world that seems so uncontrollable at times. It will change the way you do your job at work, the way you perceive your marriage, and may lead to a future most renters will never know – a home that is paid off and is no longer a burden to you.

In deciding WHY you must think of WHAT first. Here is one silly example. If you miss the family barbeques you had on the patio of your family's home as a child. Roasted corn on the cob, watermelon seed spitting, crazy Uncle George banging out songs on the piano in the basement, the smell of ribs on the grill, a piñata splitting run with a bat, and a kite flying above the back yard with your cousins. Envision yourself enjoying the things YOU want and then you can see the tools you will need to make that enjoyment possible. A place to walk your precious dog, a nearby tennis court or pool, a school within walking distance, an easy access to stores or public transportation, a garden to build or preserve to your heart's delight. The clearer of a picture you can paint, the more quickly you will know the right home when you see it.

Here is a little warning. If you are a single person buying on your own you won't need this paragraph. If you are a traditional married couple you won't need this paragraph. If you have any other status your <u>really</u> need this paragraph. If marriages are fragile in America today, all other relationships are even more so. Buying a home with a life partner, a business partner, a pal, or any other significant other can have enormous financial consequences. PLEASE CONSULT, BOTH OF YOU TOGETHER, WITH AN ATTORNEY ABOUT HOW TO TAKE TITLE. The attorney will ask significant questions that you may not be thinking about.

Story – Raymond and Bill were life partners and had been together for 18 years. When Bill's mother passed away she left him her house in a nice neighborhood. There was about 50% equity so this was a nice bequest. Bill had a modest job and Raymond a better one with more compensation. They decided to carve up the way that they would pay bills. They took out a new loan to get a better interest rate and since Bill had bad credit and lower income they put the home in Raymond's name. Raymond made the mortgage payment, taxes and insurance. Bill paid for the utilities, groceries and almost everything else associated with the home. A year later they had a falling out, oddly over selling the deceased Mom's fine china and silverware. One day Bill came home from work and found himself locked out of a home that had been in his family for over 50 years. He sued but the judge had no choice because Raymond had title to the property and had been making the mortgage, tax and insurance payments. Raymond got the home and all of the equity in it.

Now this story is actually sadder than what appears on the surface. Not only did Bill find himself homeless because of fraud, he was also without emotional support because his life relationship had failed at the same time. Two of the most difficult things to deal with both at the same time.

Story – Jillian and Rafael had been dating for two years and finally moved in together. After about ten months it seemed smarter to own a home than to continue paying the outrageous rent that they were carrying. Jillian's father didn't particularly like Rafael but as long as the boy made his daughter happy he would put up with him. Along come the four elements of buying a home – each party's cash for down payment and closing costs, each party's income, each party's debt, and each party's credit history. Verbally Jillian and Rafael agreed that they would participate 50-50, but they were just getting started and didn't know about the four elements. Turns out Jillian had a bad credit history, no cash, good income, but many debts. Rafael had good credit, no cash, modest income and no debts. Together, by themselves, they could not buy the home. They *needed a co-signor and Dear Old Dad was the only one available. Rafael with Dad could buy. Dad and Jillian could not. So Dad starts asking attorney-type questions: how much down payment are you bringing, what is going to be your monthly contribution to the mortgage and other costs, how stable is your job, why aren't you two married, etc. etc. You will probably understand that things unraveled very quickly.*

Buying a home is a big deal. If you want to test an unformalized relationship, there is probably no better way than buying a property other than holding hands running through the streets of city in a civil war carrying the last remnants of everything you own in a suitcase under mortar fire. Go see the attorney. See chapter 21 on Taking Title.

CHAPTER THREE

No Ch Ch Ch Changes

The process of escrow and obtaining your loan can take several months. It is vital during this time to present a solid-citizen picture to the lending institution from whom you are getting a large amount of money. Don't ever underestimate what this means for the lender. If you imagine the Underwriter sitting in her cubicle on a case of dynamite, you will have a good idea about their suspicious nature and temperament.

For this reason, you do not want to be changing jobs in the middle of the process. The Underwriter requires proof that you have been in the same job for two years unless there is a logical pattern to your activities in which a change fits. For example, even though you were not a Welder for the past two years, if you came out of the Simpson's Welding and Braising College a year ago, it makes sense. So plan on staying with your current employer until you close escrow. Underwriters very often will do a VOE (verification of employment) the <u>day</u> before funding the loan to make sure you are still employed.

Second, you will need funds to obtain the home. Funds for your down payment and for your closing costs. You will also need to show reserve funds in your checking, savings, IRAs or 401-Ks. That way if you are disabled or laid off, you will be able to survive for a few months. The bank wants to know that you can make your payments even if the worst should happen. Now these funds need to be yours. A deposit for $10,000 can't just show up in your account for no particular reason.

If you are selling a vehicle to raise the funds, you will need to show proof of ownership, then a bill of sale. Should you be obtaining money from a friend or member of the family the lender will want to know if this is a loan. Because, if you are required to make payments, then they will have to count that in your debts to see if you still qualify. So have your benefactor write what is called a Gift Letter. This testifies that they do not expect you to pay the money back to them; that the funds are a gift.

Make all non-payroll related deposits to your accounts as virgins. In other words, do not take the check from Aunt Clorise and deposit it with your tax refund. Make one deposit at $10,000 and a separate one at $2,169, not one big one for $12,169. Don't take cash back on the Aunt Clorise gift and show a deposit of $9,900. This makes it difficult for the Underwriter to correlate the Gift Letter and the deposit amount.

And, this seems silly; you can have everything done, approved, loan documents signed and ready to close. Then here comes your final bank statement and there are bounced checks on it. You may have gotten so crazy from all this chaos in your life that you forgot to make a deposit or failed to write in a debit card payment and booooommm NSFs all over your statement. Guess what, everything goes on hold until you can explain. So, don't bounce any checks. Well, you shouldn't bounce any checks anyway, but this is a particularly bad time to have that kind of thing showing up on your Bank Statement. The Underwriter is likely to say, "They can't even afford to live on what they make now." Be very careful during this time. Underwriters may also ask for the last Bank Statement just days before the close of escrow.

Here is a list of the things you will be tempted to buy before the close of escrow. DON'T. No matter how good the sale is. Furniture, appliances, trees, rugs, window treatments, upgrade flooring, paint, cabinets, landscaping materials, concrete work, etc. You need to keep your money handy. It would be silly to have paid $3,000 for a new patio when this causes your loan to fail. You now own a $3,000 patio and have no home to install it on. Credit cards are the biggest trap. Trust me, the Underwriter will know. Don't put anything on your credit card until escrow closes.

Story - I had a client that had ratios of 28/39 and was fully approved for his loan. At the last minute the Underwriter pulled his scores again and they came in at 28/1512. I called to ask what happened. He owned a rental car company and had gotten a great deal on some new cars that he bought on credit. He lost the house.

Don't' change banks. Not even if they are giving away free toasters.

Don't buy a car, take out a student loan, apply for new credit cards, open a charge account at a store, or even apply for a charge account at a store. Don't even go into a store if you can help it. Keep focused on your goal of home ownership. You will have plenty of time for all the rest of that after you move in. Close escrow then go shopping.

CHAPTER FOUR

Bob When Do We Get To Shop for the Property

Not quite yet.

You need to decide two important factors before you get much deeper into this process. The second is about loans to which the rest of this chapter is dedicated. The first is whether you want to be represented by a person who works in real estate. There is great mystery surrounding these folks and Checklist One at the end of this book will help you cut through that.

Here is a profile of the larger group we will call “licensees.” They are typically not the main wage earners in their family. Some will have pensions or pensioner’s checks to fall back on if the real estate career is not going well. They are required to pass a state exam that includes a lot of real estate law, some ethics discussions couched in law, and some legal paperwork. If they pass, as some 50% do, they become licensees.

If they join a big office with a national company they will get additional training in sales and prospecting. Big offices are good in this arena. Some agents outgrow their need for this kind of environment and start their own offices. They are experienced agents and real professionals in many cases.

And if they join their local Association of Realtors they automatically become members of the State and National Associations and get to use the title Realtor, which is a registered trademark. They will take more courses on ethics. They may further their knowledge through the Association’s educational programs by obtaining official Designations like GRI, CRS, SFR, E-Pro, ABR, ABRM, GREEN and SRES, just to name a few. All of this is good and makes for a better professional.

However, it is really experience that counts. How much business have they done, recently? When I first got into the industry in the early 1990’s the average licensee in a major office was doing 1.7 transactions per year. That really isn’t enough to gain much experience. You want someone that is doing 5-10 transactions a year on their own, or more if they are part of a team. And you certainly don’t want the new junior member of the team to do your negotiating for you with only a couple of transactions under their belt.

Use Checklist One to help you decide who to use. Don’t be bashful. This is the largest transaction you are going to be involved in so far in your life and you deserve to know the answers. You want someone that is tough enough to take the questions in the right light but smart enough to leave you in control and listen to what you have to say. <u>You</u> are buying the home, not the agent!

You may have noticed we are still not even talking about looking for a home yet. Here is why. There are two bad things that can happen to you when things are done out of order. If you do not get pre-approved for a loan (notice I didn't say pre-qualified) you may fall in love with a property and then find out you can't afford it. That is bad. Perhaps even worse, you might settle for a home that is less than you could afford. You could have done better if you had known you could afford it. So before you go to the market, apply for a loan, do the full process and get a pre-approval letter from the lender. This will be particularly valuable, as you will see shortly.

Now lenders will qualify you up to a certain level. They call this your Ratios. The first ratio is what your home will cost compared to your income. If the principal pay back on the loan, the interest on that loan, the taxes, and the insurance come to $1,500 per month and your income is $4,500 then the ratio is 30%. This is called PITI by the lending folks (Principal, Interest, Taxes, Insurance). If you are in a Homeowners Association then the HOA dues will have to be added in as well, though the insurance part is included in those dues.

The second ratio is the PITI plus any other debts and monthly obligations that you have including: student loans, car loans, alimony, child support, credit card payments, any other debts or obligations. If your home is $1,500 and you have a $300 car payment and a student loan payment of $150 and credit card minimums of $250, and child support for $425 then your second ratio is $2,625 divided by your income of $4,500 or 58%.

So your total would be 30/58. Even though you were fine on the debt for the home, the other debts kicked you over the line of acceptable total monthly obligations and you would not qualify for a loan.

Let me be real clear about this. My wife and I were at 55% at one point in our lives and all we did was argue about money. It was miserable. A loan officer might get you qualified by cooking the books, but if your real debt is more than 50% you are going to be very uncomfortable and probably not enjoy your home very much. Your home owns you, not you owning the home.

Look at your lifestyle and decide what homeownership responsibilities will do to change that financially. Then be honest with yourself about whether that will make you happy.

Let's simplify your understanding of the players. Most Loan Officers are the Yes people. "We can get it done!" is their action phrase. And then along came …

CHAPTER FIVE

The Loan Process

"If she asks me for one more document I'm going to kill someone." Yes, I have heard those very words spoken. The Loan Officer is just the first person at the lender who will ask for information. For a variety of reasons, including not knowing what type of loan you will be getting early in the process, the Loan Officer never gets everything on the first pass. Next comes the Loan Officer's Processor. Then an Underwriter approves or disapproves the loan. A Senior Underwriter may have to qualify that and it could even go into Quality Control. Each of these stations in the loan approval's life is a spot where more information may be requested from you. These seemingly unending requests are just part of the normal loan process. Don't take them personally. Do everything you can to get the requests handled correctly, completely and quickly.

These may include requests for pay stubs, tax records, cancelled checks, other business records, divorce papers, child custody arrangements, six-months bank statements (all numbered pages), sale-of-previous-home records, military orders, VA certificate of eligibility, award/estate/settlement/lottery winning documents, and other very personal documents. They are not in the business of making your life complicated; they merely want to get your loan approved. So do everything you can to help them.

Note: If you are moving to a new city, pack a special box of these kinds of documents and take that box in the car when you drive away from your old home. In fact, put the box in your car before the movers get to the house to pack you up. Even if you have not started shopping for a new home in the new city get this done. If your financial records are in storage, you don't even want to <u>know</u> what it will take to pay to get them out. If you can even find them.

A little story from my childhood: on one of our chaotic moves (we had five kids in the family and no less than two pets at any given time) the movers packed Mom's purse. In it were the hotel reservation details, the cash, the traveler's checks and Dad's orders to his new station. They had to UNPACK 19 boxes before they found it. First thing on the morning of your move, put your purse, laptop, financial records, cell phones and the other things in your car that you will be taking on the trip and LOCK the car.

And speaking of locking; the loan must be somewhat approved before you can "Lock" (secure a specific interest rate). We used to have a saying here in town that the Loan Officer with the lowest rates in San Diego was the one who didn't have your loan package. Don't be distracted by someone who "says" they have lower rates. Unless they have seen your entire loan package (including all of that mentioned above) they can't know what rate you would get. <u>After</u> your loan is approved you can lock your loan rate. This means that for a specific period of time the interest rate you are promised is available to you. It might be a 30, 45, 60, 90, or 120-day lock. The longer the time period the more the lock will cost you.

IMPORTANT NOTE: Write on your home-buying calendar the date that your lock is expiring. If you are within ten days of that deadline and it looks like escrow is not going to close on time, you need to get pro-active and figure out what to do next working with your Loan Officer. Do not wait to the last minute.

You can also usually get a one-time rate change. You pay for this in points. Say you have already locked your loan and paid this fee. Escrow goes longer than expected and the interest rates drop. Just once, you can drop to the lower rate. If you have not paid the fee then you are not granted the right to do that. It is a little like insurance. For the price, in a short escrow, it is probably not worth it.

If the lock expires and the interest rate goes down, you will NOT get the lower rate. On the surface this doesn't seem fair. Here is why it is. If the interest rate goes up within your lock period, higher than your lock, the lender does not get from you the higher rate. They risk having an out-of-the-market interest rate loan, yours, that they must then sell at a discount on Wall Street.

If a home is being built for you, the fellows in construction will do everything they can to finish on time but do not lock your loan with dates close to the scheduled completion date. Things happen and losing your lock because the date passes is never a good thing. (See Chapter 8 Should I Buy New or Resale.)   When you lock there is a price to be paid (as points, discussed above) for locks longer than 30 days. If you seriously think the interest rates are going to rise, it may be appropriate to lock for a longer period, if for no other reason than the peace of mind that comes from knowing the final rates you will pay. There will come a time when you <u>have</u> to lock in order to complete the loan on time. That is typically 2-3 weeks before the close of escrow. Rates fall slowly, so holding off for a few days at that time may jeopardize the completion of your loan and rarely saves any significant amount on your payments.

Your Sales Professional and your Loan Officer work with interest rates every day. Just like you work in your business. Even with this enormous amount of experience; they cannot guess where the rates will be in a week. From experience, I can tell you that rates come down very slowly and rise very quickly. If you try to "play the market" on rates the odds are against you. Interest rates have been as high as 18.5 % during my lifetime (1981) so consider yourself very fortunate to be buying at these incredibly low rates, the lowest in decades.

"Pre-paids" are items that you would have to pay in the near future but are being asked to pay with your escrow. For instance, taxes are paid toward the future. The whole process is a little complicated but the essence is that you are paying the taxes that would be due soon anyway. A nice thing is the deductibility of most prepaids on your income taxes. Counsel with your Loan Officer and Escrow Officer about the amounts involved because it will affect the amount of cash you will need to bring to the escrow before closing.

These may also be called Recurring or Non-recurring Costs. The month of the year in which you close and even what day in that month can impact the amount of pre-paids you must bring in.

Here is an example: If you close escrow on the 4th day of a month you will need to bring in more pre-paid interest than if you closed on the 25th day of the month. In the first you would bring in 26 days of pre-paid interest and in the second instance you would bring in only 5 days. So less cash up front. Here is the tradeoff: In the first, though you had to bring more cash up front, your first payment isn't going to be due for about eight weeks. In the second, though you brought in less cash, your first payment is going to come quicker, in about five weeks.

"Points" are the costs of the lender providing certain things for your benefit. You might pay points to have a longer lock period on your loan, you could pay points for a lower interest rate. A "point" is 1% of the loan amount. One of the non-recurring costs are points (you only pay them once up front, not on a regular basis thereafter.)

The "origination fee" is the lenders overhead cost for providing the building, machinery, people and paperwork to get your loan approved and funded. Every lender has this cost and must cover it somehow even if they do not charge "origination." If they are providing an adjustable loan product that involves margins, indexes and variability they can more than make up the cost of their overhead by moving these factors to their advantage. If you do intend to compare loan rates, compare only perfectly matched programs. This is done in a vacuum and, of course, your credit rating, earnings, assets and other factors could influence the rates you are unfairly comparing with un-qualified conditions of approval.

Note: a lender that says they do not charge an origination fee must make up those costs somewhere else. Though adjustable mortgages are out of fashion while I am writing this book, they will return as interest rates rise. The adjustable components of lending are multi-fold. First there is the index – the foundation of the loan rate. I won't go into a long explanation here. To that is added the margin (a fixed percentage added to the index which is not fixed.) There are also discount points which the lender can achieve by selling you into a higher margin (discount points to the lender can be a profit center.) The speed at which it adjusts, how often it adjusts, and how much it can adjust can also be manipulated to create value for the lender.

"Terms" are the interest rates, amount of time to repay the loan, and the conditions of that repayment including whether you can pay off a loan early without penalty.

Closing Costs are costs paid for all the legal, paper and people work to coordinate the purchase of your home. These include Title Insurance, Escrow fees, county recorder, documents, wiring fees, transfer taxes and many other fees. Some people call several of these "junk fees." If you do not understand the purpose of a fee ask your Loan Officer or Escrow Officer to explain it to you. You may ask nicely if they can waive that fee for you. The vast majority are ones that cannot be waived. Don't use up all your favors at the beginning of the process. You may need other items more later, and ones that have a far greater impact than a $75 courier fee.

Interesting Item: Loans are sold. Let's take a silly example to illustrate. The lender has $1,000,000 to loan and gives out five $200,000 notes. If that was it, they would be out of the lending business. So they sell the loan which is bundled on Wall Street and often sold as mortgage-backed securities. This puts the $1,000,000 back into their "pipeline" to lend to another group of borrowers. Sometimes if their mortgage enterprise is going well enough they will borrow money from other lenders to fill the pipeline temporarily. Since loans are guaranteed by the FHA and VA and sometimes Mortgage Insurers (PMI or MIP); there must be guidelines of acceptability. Otherwise the loan pools/bundles would not be up to the standards of Wall Street. To a large degree these are the criteria that lenders use to get your loan approved with an eye toward that ultimate sale. (This whole process is invisible to you, because the lender will retain the Servicing Component of the loan and you will continue to write your check to them every month in most cases.)

There are basically two kinds of mortgage companies. One is a Mortgage Broker. They get their rates from the others who are called Direct Lenders or Banks. You might put in an application with ABC Mortgage and Finance and end up with a loan from Wells Fargo. On the outside, this might seem like you got stuck paying twice and ended up with a disadvantage. And this is interesting, the Direct Lender will offer the Mortgage Broker what is called a wholesale rate that is often lower than what the Direct Lender's own Loan Officers can give you. The Mortgage Broker makes a profit on the difference if they offer it to you at the same rate as the Direct Lender. So the game for them is to be just attractive enough on their interest rates to keep you in, but close enough to the Direct Lenders rate to make a good profit.

One thing that they will not particularly like – you can apply for loans with two different lenders, called a "double ap." Lock one rate in early and let the other rate float until the last possible minute. This almost doubles the amount of work you will have to do to get your loan but if the rates change dramatically you can have big savings by picking the lower of the two.

CHAPTER SIX

Types of loans.

If you go back fifty years there was only one kind of loan; a thirty year fixed interest loan. As the mortgage business matured and was forced by the federal regulation of the banking system to make changes, new loan "products" came on the market. You will hear terms like "Fannie Mae", and "Freddie Mac" which you can think of as conduits for loans and money. No need to learn much about them from the homeowners perspective. But this is important – how the world economy looks at our United States economy and more specifically the worth of our home mortgages.

Prior to 1990, a US backed home mortgage was considered one of the safest investments in the world, especially if it was bundled with several hundred others to minimize the risk of carrying a single homeowner. These are called "mortgage backed securities" and are sold on Wall Street. Unfortunately the downturns in 1991-1995 and then again, but worse, in 2007-2010, had a dramatic impact on the world's perception of our lending practices. It is a miracle that the interest rates on homes managed to stay low in the years 2008 – 2009 because by all rights the global market for those securities should have demanded a higher interest rate. There was a large swing to more "guvy" type loans and this you need to understand. The "guvys" are FHA and VA loans.

Let's take VA Loans first. These are loans for US military service personnel on active duty or veterans. They are one of the few loan programs GLOBALLY which require no money down. They also require the seller to pay certain of the Veterans closing costs traditionally. With no skin in the game, this raises the potential in a falling market for the veteran buyer to just walk away from the loan and the house. So the VA charges an up front fee (based on how many times the veteran has used this benefit) which they can finance into the loan. So the veteran might buy a $150,000 home and end up with a $153,750 loan. This extra cash, the VA funding fee, goes into a type of insurance pool to cover bad loans.

Next are FHA Loans which are almost as good with their 3.5% down payment. The FHA loan does carry a little bugger called MIP or PMI – mortgage insurance. It serves the same purpose to stand in for the risk associated with a low-down-payment loan. So the same purchase done with an FHA loan starts at $150,000 price with a $5,250 down payment but adds back a $2,533 MIP prepayment to bring the amount owed on move in to $147,283. Then there is also a monthly MIP fee of $68. This monthly amount can eventually be removed as the homeowners equity climbs by paying down the mortgage (which comes naturally as you make regular payments, or in an accelerate fashion by paying additional principal) or an increase in the value of the home because of market conditions. "Equity" is the dollar amount of value owned by you. A home worth $185,000 with a debt of $132,000 has $52,000 in homeowner equity.

Finally there are the traditional Conventional Loans which are offered at anywhere from 15 to 25 percent down in most cases. You can put in more money but we won't spend much time on this because most first time buyers have modest amounts of savings for their first home. Let's just say, that if you have more than 25% to put down you deserve the counsel of a good Accountant to help you decide how much, so that you can maximize your tax savings and investment strategy.

SEE CHECKLIST 5 – WHAT AN ACCOUNTANT CAN DO, at the end of the book.

Within each of these large loan arenas – VA, FHA, and Conventional – can be both fixed rate loans, adjustable rate loans, and other, let us call them bizarre, types of loans. Here is one that got a lot of people in deep trouble in the late 2000's. The negative amortization loan. If the interest rate goes up, you don't have to increase the monthly payment if you don't want to. Instead the amount of additional interest cost is added onto the principal you owe on the home. Here is how bad it can be – if interest rates rise at the same time home prices are falling, you can quickly owe a LOT MORE than what you paid for the home, and then much more than what the market says the home is worth.

The most important question to answer is – how long will I own this home. If you intend to sell in three years (don't ever buy a home because you think prices will rise in a few years and you can take your profit and run) because your company is going to transfer you, then an adjustable loan at a rate significantly below the rate of fixed-interest loans might be just the way to go. But remember, done properly you are going to hang on to all your real estate. People tend to stay in homes much longer than they think they will. Sometimes decades longer! So when you can, try to stick with a fixed rate loan.

Once in awhile the gap between fixed-loan interest rates (higher) and the adjustable-loan interest rates (lower) is so large that it may pay to take an adjustable loan.

The Loan Officer will tell you to "just refinance at the end of the non-adjustable term of the mortgage." Great idea unless values, your income, or your savings fall. If this happens you may not be able to refinance and then you are stuck with rapidly and steadily accelerating mortgage payments. Welcome to 2009 and the biggest foreclosure period in American history since the Great Depression.

Let us examine the reasons for buying down your interest rate. As mentioned before, investors who buy mortgage backed securities on Wall Street are doing so because of the interest rate they will receive. So if the going rate is 6% and you want a lower rate, you have to pay points to buy the loan interest rate down, let's say to 5.5%. Maybe that will cost two and a half points. On a $250,000 loan that would be a cost of $6,250. If you save $104 per month in interest costs, it will take just over five years to recoop the cost of the buy down. Again, if you are thinking about selling in three years, that was a bad investment. Or was it? Let's say you are in the 20% tax bracket. The $6,250 cost is actually counted as pre-paid interest by the IRS and is deductible. So you would save $1,250 on your taxes for the year in which you close escrow. That brings the payback time down from five years to just over four years. And if that extra $6,250 deduction pops you down into the 15% tax bracket, we are talking even bigger savings. Again, this is worth spending a few minutes with a paid Accountant to figure your best benefits.

So here are some of the adjustable types.

Five One ARM – This is a loan that delivers a fixed rate for five years and then starts adjusting annually immediately after that. The joy is a lower starting rate and certainty about payments for five years. The danger is the pent up increases in interest rates over that time could really push interest rates up quickly after the initial period is up.

Two One ARM – Same as the Five One but it only stays fixed for two years.

Negative Amortization Loan - See above

CHAPTER SEVEN

The Escrow Process

The last few days before the close of escrow will be frantic and you need to be prepared, emotionally. You will probably be packing and worrying. Don't plan any trips for this time period if at all possible. There will be signatures required on a tremendous number of documents during this time. If you are with the Preferred Lender of a new home builder you will be signing loan documents (your promise to pay over time) and other documents about seven days before the close of escrow. A lot happens after that, before the official "Close of escrow". If you have decided on another company for your loan, it is up to you to encourage them to coordinate with Escrow in a timely manner. They may have an opinion about when they can get the documents to Escrow that is unrealistic. Ask your New Home Sales Professional or Realtor what happens if they don't get their loan docs in on time.

After you sign the documents, they go back to Escrow. Escrow unbundles them and returns the loan papers to the lender. The lender must then examine and approve them. Then they will fund the loan to Escrow. When the funds are in, Escrow sends the Deed to the County for recording. The County then informs Escrow. Escrow or your Sales Professional will contact you that escrow has now officially closed and you may make an appointment to come pick up your keys. Because of these substantial efforts, it takes every bit of the seven days to get this done. So, putting off signing your documents even a day later than requested can cause unfortunate results. Be flexible during this week. Share with your supervisor at work that you are purchasing a home. It is an exciting time and you should find them quite supportive of your needs to accomplish the American Dream of homeownership.

If you are assembling a down payment, Escrow will inform you when to bring those funds in to them and in what form. Wiring funds from a bank or stock account can take up to a week. If you are borrowing from a 401-K or other financial instrument, it is important to know the process now. Do not wait until two weeks before the close of escrow to learn that it takes 60 days to remove funds from your particular 401-K, as is the case sometimes.

IMPORTANT - In all things, get your part done as quickly as you can. There are so many elements and people involved in the process. If you are the one that slows things down, don't blame anyone else when escrow does not close on time. You may have to take time off from work to get certain things done. You might have to change your schedule for a particular day at a moment's notice. Don't delay these important items: completing your loan application, doing the final walk through, signing your loan documents, bringing in your final funds. If you are getting gift money from a relative and a gift letter from the same, do it early. If you need a letter about alimony, child support, or explanations of past credit problems get them early. If you are recently, or currently in the process of a divorce and need a quit-claim from your spouse, get it soon. Buying a home is not iffy. It is clearly a YES or NO transaction. If you are feeling uncomfortable about your decision, answer the yes-or-noquestion first, then ignore your discomfort and get your part of the job done.

Story – A hesitant Buyer of a home in Elk Grove, California just couldn't answer the Yes No question. She wouldn't communicate with her Loan Officer. She delayed the walk through. She waited an extra week to bring in her final funds. She delayed the signing of the loan documents until after the walk through. Then her lock expired. The interest rate shot up and the cost to her came to $150 per month for the life of the loan. She was angry about the situation and blamed everyone else, but SHE STILL CLOSED ESCROW! Looking back, it was only her fear that messed everything up. If she had just done her parts on time everything would have gone more smoothly and had a better financial outcome for her. As Pogo said, "We have met the enemy and he is us."

CHAPTER EIGHT

Should I Buy New or Resale

As opposed to buying a resale home (one that another family has lived in) this is an interesting choice. It has both benefits and disadvantages.

A resale home will have at least some deferred maintenance; repair jobs that the other family (or their landlord) couldn't afford to do, or never had the time, or the desire to complete.

The myth about new home builders is that they make huge profits. A really good builder, with perfect timing, a favorable market, and a relatively quick turn around time (from start of planning to delivery of the last home in two years) will make between 2% and 5% profit. Here is an odd wrinkle though. They make that profit not on each home but literally on the last 2 – 5 % of the homes which close. So if they are selling 50 homes, ALL of the profit is made on the last three homes. When you ask for a 5% discount on the home you are asking the builder to build that house at risk over a two year period, for free. He just gets out with what he put in and no compensation for his time or effort.

The community is one giant construction site. Attempting to enter your home prior to the close of escrow can be both dangerous and cause delays in the completion of your residence. Please do not communicate with the men and women working in your home or ask them for entry. If you absolutely need something contact your Sales Professional for a solution. Workers, perhaps in a less than PR related tone, would ask you to leave if you entered the construction area. They are doing this for your safety and in order to complete your home as nearly as possible on schedule.

Story - As a Sales Professional I knew that all the tradesmen working on homes consider themselves, and rightly so, to be craftsmen, some even artists. On a cold rainy winter day I walked the reserved Buyer into the garage of his under construction home. The predominantly Latin painters were having their lunch in the shelter of "his garage" To my shock the Buyer said, "So, are there any burritos in the walls?" The foreman said, "No." and added in Spanish, "Not yet." DO NOT INSULT THE WORKERS!

In purchasing new, you will be given the opportunity to add many things to your home. They might include items like wood stair treads, additional interior doorways, ceiling fan pre-wires or the actual fans, upgraded cabinets, home theatre systems, fancy iron work or railings, every possible kind of flooring from cork to marble to high end carpet. The Design Center for a builder is a very high profit center. Like everything in life, there are times that you can negotiate and times that you cannot. This is one area where you should give them one list of all your desires and then work on getting a better overall price on the package. If you are only getting a few thousand dollars worth, don't expect much of a break. If it is $30,000 then negotiate hard. You will save money.

Do not wait to order your options. As construction progresses it becomes impossible to add certain options. Even one day can make a difference. If the house is framed for instance, one of the next steps is the staircase. A good carpenter can do that in two days tops. If you were thinking about getting open railings instead of drywall railings you would have missed your opportunity.

Before the close of escrow, there will be a New Homeowner Orientation, during which you may ask questions about your residence and share any concerns over the work which remains to be completed. At the time of this Orientation, there may be backordered items or work in progress. Consult your contract for the details of this situation.

You will probably need to install, and pay for, at least landscaping the back yard, a back patio, trees, window treatments, and perhaps fencing. Don't discount the cost of these items. If your new home has 28 windows and you plan to drape and blind them it can easily run $200 per window. That is $5,600. You will need that money in cash. Landscaping and fencing can be modest or very expensive depending on your tastes.

If you have been using a Loan Officer to get prequalified there are a few notes that take on special significance when purchasing a new home. Often new homes are reserved and/or contracted as sold for many months prior to the actual completion of the home and its closing of escrow. For this reason, the Seller/builder needs to take special care in making sure a Buyer is fully qualified to purchase the home. This is especially true because to some degree you may be asking for options that customize the home to your needs and tastes. The Seller/builder will have a preferred lender with whom they will require you to do a full application.

If you continue with your original Loan Officer and the preferred lender's Loan Officer this is called a "double application" or double ap. Because Seller/builders are never certain about the honesty and the accuracy of what they call "outside lenders" they will probably offer you an incentive to use the preferred lender to complete your loan and the transaction. They will tie this incentive, which can be quite substantial to your final use of the preferred lender for obtaining the loan. The only exception to get the incentive without the use of the preferred lender is in the case of an all cash transaction.

If you have been working with another lender, that Loan Officer knows that the builder incentive will probably knock him or her out of the box as far as getting your loan business. For them it is just part of the game and they may complain, but they do know it is inevitable. They expect to lose a certain number of loans that way. They cannot compete with a cash incentive up front, though they may save you money on a monthly basis. It can take many years to make up the difference.

You CAN double ap and use the rates that you obtain from one to improve the competitive nature of the other. You must get these kinds of commitments in writing to make them effective.

One of the hardest questions for most Buyers to answer is: how long will I own this property? If you are in the military, for instance, and plan to transfer in three years and sell the place at that time, your approach to everything you do will be different. If you plan to live there for two years and then turn it into a rental, then different again. This is especially important in how you analyze the loans in which you are interested. If your outside lender offers say a 5.25% interest rate on a $200,000 loan and the builder's lender is giving 5.50% but paying $5,000 of your closing costs here is how you analyze the difference.

You will save $32 per month at the outside lender's lower rate but you will lose the $5,000 in free closing costs. It will take you 156 months to make up the difference (13 years.) If you don't plan to keep the property that long then you would be better off to go with the builder's preferred lender. The other misunderstood part is that $5,000 today is worth a lot more than $5,000 a decade down the road returned at the rate of $32 per month. Cash is king.

Also, don't assume that the preferred lender will have a higher rate. Remember, it is the Seller/builder that is paying for the closing costs, <u>not</u> the lender. So it is in the lender's interest to be competitive and they can usually match or beat the outside lender's rate.

CHAPTER NINE

Let's Go Shopping

After eight chapters you were wondering when we would get to this. So, why isn't this the chapter I thought it would be? Well, back in 1950 you could get in your car and drive to the nearest developments in your little town within ten minutes. In the 21st century there is a lot more to consider.

Commute – My rough estimate for driving a car is now at $1.25 per mile. Forget what the IRS gives you. When were they ever fair? Don't scoff; just add it all up. Oil changes, filters, tires, rotation, sale price minus got-rid-of-it price (on a lease, total cost divided by the number of miles driven), insurance, car washes and waxes, gasoline, sales tax on the car and everything thereafter. Need I go on? You want the bigger house in the outlying suburb but the round trip from home-to-work-to-home is 90 miles. Times $1.25 is $112.50 per day. A typical American works 250 days per year. The total comes to $28,125 per year for the privilege of spending two hours a day in your car. A 20-mile total commute would add up to $6,250. The $21,875 difference in some cities would take care of your ENTIRE house payment! Or pay for a private school for the kid. So carefully consider the cost before deciding on where to start shopping.

Story – I was commuting backward. We lived where all the jobs were and I was selling homes in the distant suburb where everyone lived. Unfortunately (with the same wear and tear on my car as everyone else) I had a problem one Saturday on my way to work. I stopped at the Mr. Goodwrench in Temecula, California and learned that the soonest they could look at my car was on Tuesday. There were so many people waiting for service on their commute-trashed cars that they had every bay in the garage filled and guys working on some double-stacked in the driveway.

Schools – Of all the criteria for picking a neighborhood, this one leaps off the page. Forget your own personal situation for a moment. You might be retired, or have decided not to have children, but most families do have them and the schools are critical. Women make 85% of the buying decisions on homes and schools for their children top the list of considerations. That used to be based on educational qualities, but unfortunately today safety and crime rates have become an important consideration. With an eye toward living in the perfect house regardless of the schools, say if you are home schooling or private schooling your children or they are grown and gone, you must be willing to sacrifice some future resale value if the schools associated with that area are not as good as others.

Some school districts overlap those of another city. For instance, if you live in Northeast Oceanside, California you will be in the Vista, California school district. Call the offices of the individual schools to find out if your target home is in their district.

Gangland – This problem is not going to go away with more than half of the families in America without a father-influence. Here is what to look for if you wish to avoid a gang area. Look for graffiti painted on fences and buildings. And look for cover up painting over old graffiti. The end house of a block is a good place to eyeball because the corner lot typically sports solid fences. Are there mismatched patches of paint on the fence or wall? Drive around the area in the evening. Are there groups of young men gathered and what do they do when you drive by? Do they seem to be overly interested in who is driving by or are they just self absorbed in whatever brought them together? Gangs are constantly looking for threats and the whole group will leave what they are doing aside to watch you drive by.

Story – In Fresno, California I was in a particularly tough (and unbeknown to me, gang-controlled neighborhood) and a guy strolled over from his house two-doors down and asked what I was doing as I prepared my listing for sale. He seemed nice enough but I noticed that every car that drove by looked at him and either honked or waved. Late in the day he told me that a tree in the backyard was leaning over the neighbors house and it should be trimmed. He gave me the business card of someone he highly recommended and added that he would keep an eye on the house (add "if I used his guy for the tree trimming.") The Seller didn't want to go to that expense and months later we sold the now graffiti swathed home for $27,000.

Noise and other nuisances – Industrial areas, freeways, heavy multi-lane streets and airports can make enough noise to give you hearing problems late in life. Start with a house in the neighborhood you like and drive out from it in ever-larger circles. Go at least three miles out. Look at the map of the area and see if there are any large areas with no streets that could be industrial, future industrial or airport. Look for train tracks on the map and then go see them. Do airports runways line up with the property. Talk to people and ask these four questions.

We are thinking about a home in this area. Why do you live here and what do you like about it?

Which schools do the children here attend?

I know it is a nice area, but if you had to stretch, what would you say could be improved?

Anything else I should know?

Thank you, you were very helpful.

They may ask you which home you are interested in. The best thing to tell them is that you haven't decided on a specific home but follow that quickly with, "Why, do you know of one that is going on the market soon?" If they say yes, find out about it right away, maybe even go see the owner and knock on the door.

Story – When the wind blows consistently from one direction you can be tricked into thinking that a neighborhood smells delightful. And then that day comes when the wind turns and wwwhhhooooo boy, hello smellsville. In Corona, California I always went to the tract homes I was selling on the same freeway, same side streets, and the wind usually blows west to east. Once in awhile it comes off the desert and is called a Santa Ana wind blowing east to west. Now what I will tell you did not effect my homes, but one day I was *in another area and smelled a big nasty one. Turns out there is a cheese factory. Now I love cheese, but this was beyond description. So circle out several miles from your new neighborhood and leave the windows in your car down.*

Research Deeply as you will Live Deeply – Go back to the neighborhood, take a sandwich, roll down your windows and sit there from 9:00 pm to 11:00 pm on a Saturday night. Go there from 7:00 am to 9:00 am on a Monday morning. If anyone approaches you, just tell them you are considering buying a home in the area and then start asking them the questions above. They will leave you alone. Driveways tend to pair up, so park at the property line between two homes or on the non-entry side of a corner house. You can also walk around the area. Listen for airplanes, freeways, and the sounds of life. Smell the air and feel it, too. No, really, there are spots with cold wet low lying air that can be quite uncomfortable.

Story – On the checklist at the end of this book you will find a checklist with this question. "This is a nice neighborhood. Are their any neighbors that I should know about?" My client Chris and I were examining a foreclosure home for him to buy and we asked that question of a homeowner next door. He just nodded across the street without saying a word. This guy was home at 9:30 on a Monday morning, no cars in his driveway and none at the house next door. The woman from next door was literally being pushed around, then coddled, then pushed around, then hit on sensually, then ignored, then walked away from, then yelled at, then hugged. And SHE KEPT COMING BACK to him. I don't know who was crazier, him or her. I advised Chris to avoid this neighborhood, or at least this block. A crazy neighbor can put a whole area on edge and make living there a misery instead of a joy.

Make the commute – Drive from the neighborhood to your work during several regular morning and evening rush hours. That will tell you a lot about the commute.

Geography – If you know the area has a lot of water, streams, rivers, or springs, find out what the flood characteristics are for the neighborhood. You might want to buy on higher ground. Visiting often will tell you about wind and sun. Low lying areas in cities with less precipitation can be extra cold in winter.

Story - Where I grew up from age 9 to age 15 it was always really cold in the morning at Fallbrook High School. Many years later I found that someone donated the land to build the school in that location. At first I thought, "what a wonderful thing to do" then later I found out that this Avocado Capital of the World had just one low spot. You got it, right at the high school. No avocadoes would grow there and if they did, almost every year they would get a freeze and the fruit would drop off the trees. Try to find out the micro-climate weather for your block. Ask the neighbors.

My Neighbors Homes – how do the other homes in the immediate and extended area look? Is this a nice neighborhood, but in a pocket, and surrounded by less desirable areas? Are the homes near me nicely maintained? It is notable that neighborhoods go through a cycle which can run twenty years or two-hundred years. It is almost invariably a downward spiral, which follows the general age of the homes. Losses of jobs, foreclosures of homes, changes to the quality of schools or re-districting can accelerate the process. Some cities have redevelopment areas that can reverse the trend. Baltimore, Maryland did a fabulous job of this in the 1980's. But in general areas go down in value over the long run. Here is an odd fact. When homes lose value slowly, it is the quality of the house itself where the value is lost. When it loses value quickly, because of the economy or a war or a major change in the makeup of the locale, it is the value of the land that has taken the hit. The physical plant (the house and its services) has not changed in most cases. When times are bad, that is a golden opportunity to buy land.

(Note: if you are considering building a custom home on your own plot of land, I highly recommend that you read the book House by Tracy Kidder. Custom home building rarely makes you money, but it can lead to a fabulous home that almost suits your every need. This assumes that your marriage, your finances, and your sanity survive the process. Read the book.)

How Good Is This Area – one of the tests is to see how many homes are on the market. If you see many for sale signs, the area may not be that desirable. People who love their homes, and can still afford them, do not move. Low turnover is desirable. Remember that home buying, and therefore home selling, is seasonal. Just as there are fewer people looking for homes between the last two great American holidays (Halloween and Super Bowl Sunday) ((Just joking, but the time line is correct)) there are also less people putting their homes on the market. If you find a home on the market during Christmas week then you have a highly motivated Seller most likely.

Availability – the Echo Boomers' (or Gen.Y) population is 73,000,000 Americans (born 1980 to 1996). Perhaps you are a part of this generation. If you read the history of our country from 1950 to 1990 you will see that the last big influence on the economy was the Baby Boomers (born 1946 to 1963). They went to school (we built more schools), got their first car, rented an apartment, got married, bought their first home, had children, got their second car, moved to a nicer home. They dominated every aspect of the economy with their purchasing power. We needed to build more cars, apartments, more baby clothes, more furniture, and more houses. Their generation count was 83,000,000. That means the Echo Boomers will have nearly the same profound impact on the economy. Especially, homes because it is likely that the demand will not be able to keep up with supply for most of the time the Echo Boomers are buying their first homes. This creates an interesting problem. I am recommending that you do a lot of research and yet seem to be saying you will have to make a quick decision once a home comes on the market.

CHAPTER TEN

One Last Thing before We Go Shopping

You need to decide whether you want to be represented by a Realtor. There are many of them out there and making this choice up front will save you from choosing one poorly later on. More on that later.

Why would I not enlist the aid of a Realtor? The most common reason is that the Buyer assumes that some commission can be saved. They reason, "If I don't bring my Realtor to the deal, then the Seller will save half of the 6% commission." Sounds good, but here is the problem. The Seller wants to save that 3%. You want to get a 3% better deal. (When talking about For Sale By Owner FSBO properties, you both want to save 6% with no Realtor involved.) Problem is, you can't both save the same money.

A Realtor is going to have access to more properties, especially in a time when there are relatively few homes on the market. They may know of someone that is ready to sell and just needs a little encouragement, and the Realtor could tell them about your interest in the neighborhood to nudge them along to a decision. Another Realtor in their office may have a listing coming in that you could grab before it goes on the MLS in front of thousands of hunting Realtors' eyes.

By the way, a licensee or agent is not the same as a Realtor. Anyone who passes the exams can be a licensee. To be a Realtor you must take additional courses, in some jurisdictions, relating to customer service and ethics. Realtors must also pay to belong to that Association of Realtors. The cost is relatively low. There are some fine non-Realtor licensees out there but almost always the Realtors look at them as slightly outside the envelope. I recommend working with Realtors.

What could go wrong if I just start looking? Well, some Realtors are very persuasive. They may not have much experience but their skill at talking you into using them can be very high. They have a real interest in getting your business. The last time I checked, the average agent did 1.7 transactions per year. When you consider that twenty percent of the agents do most of the business; the odds say the Realtor you run into casually probably did one transaction in the last year, or none. That is not the person you want to have handling the most important business transaction in life to this point.

SEE CHECKLIST ONE – FINDING SOMEONE TO REPRESENT YOU, at the end of the book.

Team Realtors can be very effective, but they can also be casting inexperienced junior agents under the wing of a senior Realtor. If the one you get can't answer the questions above personally, and they keep referring to what the team did, you might want to consider finding someone else.

Real estate representation is both an art and a science. The art segment is carried under the rules of knowing when to push and when to back off. We see it so many times that the Realtor who has little experience will push VERY HARD on elements of the transaction to prove that they have earned their commission. The huge difference between a pushy obnoxious Realtor and a positive encouraging one can make all the difference in a transaction.

Story – An inexperienced agent insisted that the final walkthrough on a home could not occur until five days or less before closing. So when the date for doing the walk arrived, she told her client to wait. She also insisted that the Buyer not lock their interest rate until they fully understood all the charges from the preferred lender and had an estimate from Escrow as well. As rates changed, so did the necessity for a new estimate. Same Realtor told her client not to sign loan documents before the walkthrough. Since the process to close after the signing usually takes four to seven days, she had them stuck in a never ending loop. Result – the transaction closed a month late because of the inexperienced agent.

So decide on whether you want representation and then stick to your guns. If you decided not, then don't let some agent talk you into using them because they happen to be the listing agent, or happen to specialize in the neighborhood you want.

About Buyer Representation Agreements. Really good Realtors use these. Inexperienced agents will drive you around in their car and just hope you stick to them. Read the agreement carefully and based on local conditions, sign up for a reasonable period of time like a month or two. Realtors have a very high cost for helping Buyers, the loss of their time, the loss of a portion of their *life*. So unless you are serious and ready to make a purchase, do the fair thing, don't use a Realtor. If you just like looking at homes, go to the new home tracts and tell them when you walk through the door, "We are just looking for decorating ideas."

Story – I drove a couple, and occasionally one of their friends, around for two weeks and they finally found a house they wanted to buy. When I asked if we should write it up, the husband said, "No, we'll have my Mom write it up. She is a Broker." So the mom was lazy and didn't want to use her time driving them around. I was used and abused by this couple, which of course was totally unfair.

As you can imagine, I personally would not tour a Buyer who was not willing to sign an agreement. The experienced Realtors, the kind you want representing you, will insist on it. Consider this; if a Realtor cannot be forceful enough to get the kind of contract they need with you, how will they ever be able to negotiate <u>your</u> transaction?

If you decide against being represented, you are on your own. You must be extra careful to read everything that is put before you as you sign it.

CHAPTER 11

Where to look for available homes

Places to find homes

- The internet websites of builders who may not be advertising anywhere else
- The local newspaper, or several if there are more than one, look at all
- Search both the little classifieds and the big display ads
- Driving the area you like and asking area residents
- On the MLS, which is generally available over the Internet without strings
- Through a Realtor
- Home Buying Guide freebee hand outs at the grocery store
- Ask if anyone in your circle of friends or family is considering selling

Don’t get lulled into inaction. Once you decide to start looking, spend that 30 minutes a day in the digging part of the search. Sometimes a large display ad will run just once in the sports section or the regional section of the paper. Miss one day and you might miss the home you wanted. Same for classified ads. And don’t discount the holidays. Very motivated Sellers will advertise during Christmas, Thanksgiving and New Year.

CHAPTER 12

What do you Want

Being clear about what you want is critical to time management. You are probably both working and you may have children and all of their activities. Your time is valuable, so deciding in advance will shorten the search process.

Get a notepad and write out a description of your perfect home. It might look like this:

A single story home with three to four bedrooms, at least two bathrooms, a formal dining room, a spa or swimming pool, a small yard, lots of windows and few trees, on a downslope with a walkout basement that we can finish later. Fireproof roof but no sprinklers inside the house and no fireplace.

That is a good start. You should add as much as you can to the description. Do you like or hate Tudor? Does the garage need to connect directly to the home? If it is in a condominium must there be an elevator? How close to the school do I want to be? Do I want to accommodate my pets in any special way?

If you decide to work with a Realtor, communicate ALL of this to her at least a day before you get into her car. (Always take her car. You don't want to be worrying about driving when you need to be looking around. If you want to drive a different street just tell her.) Know in your heart that the larger the description the less likely you are to get everything you want. But also know that she will do her best to match as many of your needs as possible. When you find the right home, you will know it.

SEE CHECKLIST 2 – KNOWING WHAT YOU WANT, at the end of the book.

CHAPTER 13

Let's Go Product Testing

When you are finally ready to look at homes, here are some of the things to look deeply into. If the homes does not meet some basic need like too few bedrooms, a pool you don't want, a destroyed back yard or other cross-it-off-our-list consideration then you really don't need to look into the aspects below. Move on to the next home.

If you find one that meets your basic needs then look at these items. Feel free to walk around the inside and outside of the whole house. Look up and look down.

Stucco cracks, siding separations, does it look solid
Bones, does the home feel solid, well sealed and comfortable
Roof line changes, any odd roof lines, these can signal a poor or illegal addition
Roof covering transitions, does the type of roofing change from one area to another
Rooms that don't make sense, does it look stuck on, or without a specific purpose
Layouts that don't make sense, four bedrooms with one bath at the end of the hall
Old style layouts, long halls with bedroom after bedroom, or huge living room no family
Room, big dining room that you never use, but a tiny family room
Where does that refrigerator go and can I open the door
Is the kitchen too crowded for two people to use at one time
Try some of the doors and windows for ease of motion and proper closing
Which way does water drain on the lot
Any huge trees to trim away and are they historically protected
Ceiling height make sense or are high ceilings just energy wasters
Lighting fixtures of the right height, are there enough of them
Breaker panel capacity, Add up the big breakers ________
Internet access ______________
Schools _________________
Connecting garage ________________
Gutters _____________________
What seems out of place?
Is the swimming pool in the shade at the time of day you want to use it
How much extra landscaping needs to be removed, trees touching house
Do I need to add to the landscaping and at what cost
How old are the heating system, water heater, A/C, appliances, smoke detectors
Is the carpet used up
In a condominium, what are the rules and will they impact what I want to do
Pet restrictions, flooring restrictions, parking rules, garage use rules, walk
Around, do things look well cared for, pool clean, free of dog litter and trash

The Jump – you must sometimes make a quick decision about a home or you will lose out on it. Here is how to bridge the gap in these two opposing needs we have discussed.

You can put a house in contract very quickly. That doesn't mean you have to close on it. Now, I am not suggesting that you do this in a cavalier fashion. You are involved in the Sellers' life as much as your own and must play fairly. But the time that a home is in escrow is the time that commercial Realtors call "due diligence." That is the time for investigating every aspect of this very important decision you are making.

Feel free to have a physical inspector examine the home for possible defects. Remember you are most likely buying a USED home, not a new one. To expect a previously occupied home to be as perfect as a new one is unrealistic. The physical inspection is not supposed to be a club you use to bash the Seller into perfecting the home. What it IS for is to determine if there are any major, undisclosed items that could cost you plenty down the road. Don't ask the Seller to replace the electrical cover plates that are out of date; that is petty. Don't ask them to replace the roof; they can't afford that.

They want their price and their Realtor has probably already pounded on them to accept a lower price because the carpet needs repair or the kitchen is outdated. You will not get the lower price <u>and</u> concessions for the outdated amenities, too. Late in the process you may need for the Seller to give something into the transaction, so don't back them into a corner too early in the process and jeopardize what you may need later.

SEE CHECKLIST 3 – FINALIST HOMES CHECKLIST, at the end of the book

CHAPTER 14

The Art of Negotiating

Don't assume your Realtor or the Seller's Realtor will do this.

No joking, this is serious business. Have fun when you are talking to the Seller but keep the frivolity out of the transaction and off the house. Remember this is their home and even though they are leaving they may still have great pride in it. This is stressful for them and for their family and a poorly placed joke can be a real barrier to getting what you want in the business of buying this home.

Story: I was watching a TV show, maybe Million Dollar Listing. The Seller kept asking the male Buyer to throw in his girlfriend as part of the deal. The Buyer was noticeably disturbed by this comment. The Seller did it THREE TIMES and never picked up on his stupid error. He thought he was being complimentary, but he was just being a jerk. The Buyer was not complimented or humored and it probably cost the Seller plenty.

Asking the Sellers to leave behind their draperies is one thing. Asking them to give you their grandmother's desk is quite another. Be careful what you ask for.

Here is a perfectly clean transaction. List price $200,000. You buy it with no contingencies at $200,000 all cash and close in 7 days. EVERY OTHER TYPE OF TRANSACTION IS LESS APPEALING TO THE SELLER.

So, as in any negotiation, you need to find out what the Seller is trying to accomplish. There is a big difference between one who has already started work in a new city and needs to move and a couple that has decided to retire but don't even know where they are moving more accurately than "a desert climate." What is the ideal move out date for the Seller? How much equity do they have in the home versus how much debt? What do they want to take with them, versus what would they prefer to leave behind and not pay to move? Have they purchased their next home yet? What work on the house would they rather not bother with since their hearts have "moved on" already?

There is a term to remember. The Passover Lamb. That is the one that is sacrificed and then eaten. Here is an example. If you know that the washer and dryer are brand new then the Seller probably wants to take them to their new place. If you ask for them to be included in the deal even though you don't really need them and they say no then they feel like they have a little win. If you were asking for a change in terms at the same time, like a delay in timing or for them to kick in another $1,000 to help with an unexpected closing costs, then the loss of the Lamb helps you accomplish the more important request – the $1,000.

Whenever possible combine elements in your requests so that the Seller can say no to one and yes to the one you really want.

Negotiating the price is an art. Warning – in any negotiation you must be prepared to lose the deal if you are not giving the Seller exactly what they are asking. That is always their option. If there is very little supply of the type of home you want available, you are usually better off to give the Seller their price and terms. If you think you will be in competition with other bidders, you may want to offer a bid over the price they are asking.

There is a term called "nibbling." It is when the deal is completed agreed upon, probably in writing too, and then one party comes back and asks for a little something more. And maybe even does it again. If you absolutely have to nibble, only do it once.

If the property has been on the market for a long time, say over 60 days, and it has not sold or had a price change, then you might not expect competition. The Seller will also be more open to offers. If they have a compelling need for a certain amount of money then you may not be able to get it for less than they are asking. You should try to find out, probably through your Realtor.

Think carefully about what you can offer the Seller that will help them but not cost you anything. Example – you are now renting. Even though your lease runs through May 30th you could close escrow on April 30th. That would mean you have to pay rent <u>and</u> mortgage for one month. But you had planned on doing some painting, door replacement and appliance upgrades before you moved anyway. You don't have to tell the Seller this, maybe not even your Realtor. These are the words you would use. "Well, our lease is through May 30th. We know you want to close as soon as possible. We would have to be paying our rent and for the mortgage at the same time. If you could credit us another $1,000 toward our closing costs we could probably do that." They say yes because they get to leave on schedule and you just pocketed another $1,000.

Never back a Seller into a corner. Whenever possible have something to offer them in exchange for what you are asking. Example – moving from an apartment to a house you would probably to own any patio furniture. Their old patio set is sitting in the back of the house. You intend asking for them to pay $4,000 in closing cost credits and think they may not accept that. Tell them, "We can't afford to buy patio furniture and summer is coming. One of the main reasons we want to get this house is to enjoy meals outside with our family and friends. How about we buy the patio furniture as part of the deal at say $500 and raise the price to cover that?" If the patio furniture is worth $200 they will think they made a killing and be more likely to accept your request for the closing costs credit. That is very different from just asking for the credit with a take it or leave it attitude.

Every time an adjustment in price, terms or conditions is negotiated you must time your responses. If you wait too long to give an answer, they might accept an offer from someone else. But, if you answer too quickly, they will think they offered too much to you. So try to time your responses in a way that says you carefully considered this huge burden and just barely agreed to it.

You will not be face to face with the Seller through all this but if you are, here is how to handle it. Do not react one way or the other to what they are proposing on the spot. If they ask for something that you find disagreeable, then "Hmmm" is a perfectly good response. Follow that with a long pause while you think about thinking about it. If you can, say "Well, we will have to get back to you about that. We need to think about that."

Story – I was negotiating a transaction some years ago. The Buyer offered a good price and excellent terms. When I sat down at the Seller's kitchen table with the listing agent to present the offer, the agent kept objecting to almost everything. This situation always worries me, when the agent won't let the client speak for themselves. He said, "that isn't enough for us." My Buyer was offering list price. "We want a quicker escrow." My Buyer was offering a 30 day escrow. I finally got so frustrated that I asked the agent to come to my car because I had "forgotten something." When we got outside I asked, "Don't you want your client to sell this house?" He responded, "No, not really. This is my only listing. If it sells my Broker will be all over me to go get another one."

Make sure you understand all the players and their motivation. This will be the single most important part of the process of negotiating a deal that everyone considers a win.

And when you finish, tell the other players that they did a good job. Make them feel like they negotiated hard and you suffered. Even if you got 9 of your 10 requests, let them know how badly they whipped you on the 10^{th} one. "You are really a good negotiator. You sure worked me over. I learned a few things from you." Don't ever ask if they think they got a good deal. Down the road you may need something from them and you don't ever want them to feel like they got the worst of it. (Things you might need – the combination to the padlock on the back gate, the key to the community pool, the mailbox key they forgot to leave, the warranty on the stucco coat, etc.) Leave them feeling good about the deal.

CHAPTER 15

Timelines and Deadlines

Your contract will have dates for specific events in the process of closing escrow. If you pass those dates, then it will be assumed that you accept the property and have waived the right to challenge. So don't count on your Realtor to watch these dates for you. Make up a calendar of dates and tasks so that you know them. Then get that element completed well BEFORE the due date.

Here is an example. You have a date by which the physical inspection must be completed, let's say March 16th. On your calendar, mark that date, but also mark the date you want the inspection performed, say March 12th. Then put on your list of things to do today: call inspector and schedule for March 12th. If you get to March 15th and have not scheduled or done the inspection then you will not be able to make it happen. The inspector usually needs a few days to send the 20-page report to you after downloading the photos. Contingency dates are not iffy; they are specific. Then you would need to prepare a Request for Repairs to have your agent send to the Listing Agent for their Seller to review, all by the due date.

Almost every contingency with a date takes more time than you would think. Ask your experienced agent the day-by-day process for each one so that you can plan in advance when to achieve them.

You may choose to get a soils test done, a septic tank test, a water well test, a termite report (usually done by the Seller, but not always), a roof inspection, a mold test, a radon test, and others.

With the loan, the best strategy involves a first very honest meeting with the Loan Officer and then completely truthful answers to every question after that. Doing this before you shop for a home can be extraordinarily valuable. The Processor and Underwriter will find out things about you that you may not even know yourself in the beginning. For instances, what is the total balance on all your credit cards? Your truthfulness will keep the loan contingency date from arriving without you having a pretty good idea about whether the loan is going to work or not.

CHAPTER 16

Buyers Remorse, Sellers Remorse

Just about twenty minutes after you ink your first offer you will begin to experience Buyer's remorse. Here are just some of the questions that are going to come up for you:

1. Did I look at enough houses in the market to know what I am doing?
2. Is this really the right house for us?
3. Is it really in the Richland Success School District?
4. What is the commute going to be like?
5. What kind of neighbors do we have?
6. What will my family think?
7. Am I paying too much?
8. Will they sell it to someone else?
9. Will my offer get accepted?
10. Can we really afford this?
11. WHAT AM I DOING!?

First, know this is perfectly normal. This is the largest transaction in your life so far. If you aren't a little nervous then you aren't normal. Remember you must work your way through this to get to your goal.

So you go into the work the next day and see your best friend there.
You, "Hey, I just bought a home!"
Friend, "No way! That is so cool. Interest rates are the lowest in 50 years, prices have dropped thirty percent and I bet you got a good one."
You, "It is almost perfect. It has everything we had on our list."
Friend, "You are a genius. I wish I could buy a place."

Then you walk down the hall and run into your second best friend,
You, "Hey, I just bought a home!"
Friend, "No way! That is so stupid. Interest rates are going to drop to 2% next year, prices are still going down and if you had waited, you could have gotten a better place.
You, "It is almost perfect. It has everything we had on our list."
Friend, "You are an idiot. I wouldn't buy now if I were you. In fact I am going to sell mine so I can buy cheaper next year."

Welcome to the ROLLER COASTER of real estate purchase emotions!

Now if that wasn't bad enough – you decide to go to a family party. Everyone already knows what you are doing, and everyone has an opinion about it not very different from what your friends at work did.

Here is how to handle all the questions they are going to ask:
"So how much did you pay?" You, "We got a good deal, right in the range we wanted."

“What is your interest rate?” You, “Its affordable.”
“What kind of concessions did you ask for?” You, “Just the right amount, they accepted.”

Not too hard to see that all the answers I recommended are vague. But, if you stay in control you won’t get AS hammered by these kinds of comments:

1. “You paid HOW MUCH?! I could have bought that same house for $16,500.” (Of course, that was in 1976.)
2. “You got an interest rate OF WHAT?! You should have talked to Cousin Frank. He could have gotten you a much lower rate.”
3. “I can’t believe you used a Realtor outside the family! Aunt Sylvia does all of the family transactions.” (Aunt Sylvia did one two years ago, and one four years ago, and one seven years ago.)

The best thing to do is just to finish up, close escrow, move in and then invite them to your housewarming party.

So know this. You will experience a huge range of emotions driven by family and friends. <u>They</u> are driven by jealousy, loyalty, anger, joy, fatigue, enabling, support, old information, mis-information, and confusion. Don’t fall into the emotional traps that they lay down in your path to a successful purchase.

And you should know that the Seller is having second thoughts also. Did we sell too low, is the Buyer going to qualify, will we close escrow on time, will the house appraise, will the inspection turn up too much stuff and kill the deal. Given an opportunity, be kind to them. They may be much more emotional about leaving a home that they have lived in for so long with all the memories they made there.

CHAPTER 17

Checking All the Variables

Think of all the elements that make up the value of a home. Crime rate, school district, local unemployment levels, neighborhood upkeep qualities, is the area rising or falling in quality, any major changes coming like an airport, ballpark, or industrial area. These major changes can impact the future value of your home and the quality of your lifestyle, too.

More subtle, but just as important are these considerations. Is the homeowners association solvent, are there any bad neighbors, any soil or flooding conditions in this general area?

Take a small pug-in night light with you, and a spare bulb. Plug into every outlet, top and bottom including the kitchen counter and the garage and yard plugs. A regular outlet looks like a little face with two eyes and a mouth. If you find an upside down face, mouth on top and eyes at the bottom, this is called a “half hot.” That means half is always active and the other half is connected to a wall switch. This gives you the chance to have a table light come on when you walk into a room by flipping a switch near the door. So plug in the night light and flip the switch on and off to make sure they work together.

Also check to make sure the outlets and switch are securely fastened to the drywall or wood to which they are attached. They should not move around, at all.

Creaky floors are not usually anything dangerous but they can be a nuisance. Or they can be a great alarm system for keeping the kiddies in bed at night, or the dieter out of the refrigerator in the wee hours. They are usually caused by a nail or screw through the floor decking near the floor joist beneath it. The nail slides down the edge of the wood instead of into it. Caught during construction it is easy to repair. After the flooring goes down, not so easy. So walk across every square foot of your floors when they have just been finished.

Homes are exposed to a lot of water and moisture during construction. This is normal. Having residual problems is not normal and can be a real danger to your health and the value of the home. Have a mold test done by a licensed company just to be sure. Look under every sink and toilet and use your hands to feel for water on pipes or on cabinets. If you see signs of a leak or feel water, you may wish to have the contractor look into it with you, especially for anything that might lead to mold growth.

Get down low and look across floors. Do they look level? If you see a drop off, then go outside to see if there is any other consideration like cracked footings, cracking stucco or bricks, siding separating, or soil erosion lurking that might indicate that that corner of the home has dropped or will do so in the future. Walk and feel for any ground water.

Make sure the builder has cleaned everything like window tracks, flower beds, and in the attic. There should not be much construction material left in the home when they finish, if any.

Get your ladder and take a peak in the attic. Just before you remove the crawl space hatch put on the latex gloves so that you do not leave fingerprints on the new paint. Also, if you touch the insulation this will protect at least your hands from the irritation of fibreglass cuts. If you go up there be extraordinarily careful not to step through or fall through the ceiling to an uncertain fate below. In the attic look for rodent droppings, water stains that might be signs of a leak, make sure that all areas have been properly insulated and no areas were missed.

Let's go outside.

Examine the edges of windows and doors, especially underneath where you don't normally look. Are there any gaps in materials that look open or are exposing the materials normally <u>under</u> your exterior coatings like siding, stone, brick, or stucco. Stand back and look to see that all materials are reasonably alike in color with patterns of application that seem consistent.

Look at the corners of windows and doors. Are the pieces of the framing tightly attached to each other. Are there any cracks leading through the surface materials, like stucco, out into the field. Minor cracks are normal. Major, or many cracks, may be a sign of improperly settled, or moving or expanding, soils under the house. If you see this, then another inspection by a professional is critical. Nothing is more important to the long term value of the home than whether it properly relates to the soil.

Note: A home is made of materials that move, expand and contract placed into direct contact with other materials that are solid and immovable. A concrete slab shouldn't move at all. Wood framing moves all the time. You can see that this mechanical enigma will create small cracks. Dry wall sheets don't move. So if you have doubts about the number and size of cracks consult an inspector.

Concrete both inside and outside will usually have small cracks. A "cracked slab" is one where the cracks are large enough to slide a pencil into and ultimately signal that a lot of movement is going on in the slab. This can separate electrical lines and create a fire hazard, break water pipes and create sewer line separations. All bad. If you suspect a cracked slab, hire a soils inspector to tell you what is going on. If they cannot tell you or the report is bad, buy another house not this one.

Driveways, garage floors in some cases, patios, and sidewalks are less critical in terms of their danger to the integrity of the home's mechanical system. You may find more cracking there than inside the home. If you have the opportunity to examine the home before the new carpet goes down, do so.

Walk every square foot of the land, including flowerbeds. Does anything sink down when you walk on it? Is it spongy or outright wet? Why? Look for low spots where water could accumulate. Do the neighboring properties drain into their own, or onto your property? Does the land slope away from the home or slope toward it. If it slopes toward it, are there proper drainage swales to draw the water off and away from the footings of the home?

Check to see if yard drains look plugged. Is there any area where dirt is washed away? Do the hose bibs outside seem to be operational? Check gutters and downspouts to see if they seem to be solid and well attached. See where the gutter water is directed and make sure it flows away from the footings of the home.

Lean against all fences and make sure they do not move.

Is the lawn and are the gardens consistently green or are there brown areas or dead areas where the sprinklers may not be working.

WHEN YOU ARE FINISHED BE SURE TO TURN EVERYTHING OFF. NOTHING LIKE HACKING OFF THE SELLER BY LEAVING THE AIR CONDITIONING AND THE OVEN ON. REMEMBER YOU WILL BE ASKING THEM FOR THINGS IN THE NEGOTIATIONS AND YOU WANT THEM TO LIKE YOU. LOCK UP THE HOUSE WELL AND PUT EVERYTHING BACK WHERE YOU FOUND IT.

SEE CHECKLIST 4 – SELF INSPECTION, at the end of the book.

CHAPTER 18

Why buying a New Home is different

Buying a new home requires more patience and flexibility. Pretty much when you buy a resale you know the close of escrow date, the Seller knows when they have to leave, and you know when to plan your move-in. None of this is true with a new home.

Here are just a few of the things that can lead to delayed closings.

Weather – In 1998 in Escondido, California the builder dug the trenches for the footings of 10 homes, put up the concrete forms and was ready to pour concrete the following day. Then it rained for two days. They let them dry out for four days. Then dug the trenches a little deeper, ready to pour the next day. Then it rained for three days. This pattern repeated over and over and 22 days later the footings were finally poured (and by the way, there is so much concrete there those houses will still be in the same spot 400 years from now.) Result – closing pushed out three weeks

Supplies and material – One year the number of homes being built, I think 2003, was so large that the drywall companies couldn't keep up with production, though they were running 24 hour shifts. This also resulted in the importation of poison drywall from China. Result – closings pushed out 2-6 weeks depending on who you knew and how much pressure you could put on the supplier to get drywall.

Labor – Union laborers have lower guidelines about when they can walk off the job. Production plumbers draw a circle on the slab and if a specific number of rain drops fall within the circle in a specific number of minutes they are to leave the job. Non-union laborers may choose to stay, regardless.

Workers and those who hire them – In a tight labor market, when many homes are being built simultaneously, an entire crew may be pulled from a job. This usually happens when someone down the street is behind schedule and goes to the owner or foreman and says, "I will pay you double if you come finish painting my 10 houses on Tuesday and Wednesday."

Individual workers – they tend to call in sick more around the holidays when times are good. And of course sometimes they really are sick. A family emergency, often in a different state or even a different country will pull them off the job. This may be a weeks-long absence instead of a day or two.

Government – a city or county inspector can come on the job and do anything from disapproving a nailing pattern to shutting the entire project down. In conjunction with other elements this can be disastrous. In many parts of the country a construction site must now capture ALL runoff water to let it silt out before draining to the streams and rivers and ocean. An inspector coming onto the site can demand that the precautionary construction of catch pools and other filters is inadequate and shut down the project until it is complete. AND when the contractor has made the correction the inspector doesn't come zipping back out to pat them on the back for a good job. It may be as much as a week before they are seen again.

Cash flow – if a company is just barely making their financial obligations, there may be points in time when they have to delay payments to a tradegroup. Suddenly the stucco application team doesn't show up because they haven't been paid for the last job they finished for the same company. Also, if there is a dispute about quality of work at one job, the contractor might hold off payment for that job, and then the tradegroup says, "Well if that is the case, we won't finish this new job."

Equipment failure – this is rare in home construction but can happen. The Westin Hotel in Denver was under construction and nearing completion. Six weeks before opening day, around which were planned festivities and the first of several large conventions, the single man responsible for the construction of the beautiful cabinetry known as the Front Desk and Lobby had his millwork machine break down. It had to be completely replaced or rebuilt; the latter would take several weeks. And the tradesman didn't have the cash to buy the new machine. The hotel company had to loan him the money. In home construction there are usually competing companies that can jump in and supply things like, concrete pump trucks, stucco shooters, forklifts, trenching machines, etc. A subtler element of this problem is when the tradegroup says the delay will only be two days, then they say three, and before you know it a week or more has passed.

Etc. etc. etc. - In 2004 I was driving to work and almost went off the road when I saw the company that was doing our framing advertising for carpenters by dragging a banner behind an airplane. Made my blood run cold because I knew all of our closings on 12 projects would now be running late.

So for the long term you have to plan your close of escrow on two levels: the contract-says level, and the what-if-it-is-delayed level. Don't tell your Uncle Nick, <u>a month in advance</u>, to take a week off from his job in Portland to help you move in Cleveland. The odds that you will hit the dates right are low. Even short term, remember the city inspector has to pass the C of O (certificate of occupancy) during the final days of construction, the ability to predict can be off by several days with only a week to go.

For once in your life, this is a good time to be a renter. Families who are selling their home to move to another one usually coordinate the flow of money and their move to a tight one or two day schedule. As a renter you can create an overlap between your tenancy home and the new home and have both places at the same time. This will take a lot of pressure off your moving week (s). And if things slip, well, you have some cushion. If you want to do some custom painting or wall papering this will provide time for that as well.

You may think that no one cares about your move-in date. This is not true. The builder is losing money every day that the home cannot be delivered, a LOT of money. So, trust me, they are even more motivated than you are to deliver the home on time. Many of the delays are things that are out of their control.

CHAPTER 19

Insurance

If you are buying a house you will need to get insurance on the home for its loss in case of fire, flood, and storm. This will be required prior to the close of escrow because it protects both you and the lender, who has far more at risk monetarily than do you. So shop early for this insurance to get a good rate, even though you are not activating the policy for several weeks or many months. Escrow cannot close until the insurance company provides a binder to Escrow and Escrow sends that through to the lender.

If you are buying a condominium (and by this we mean a duplex, a row house, a twin home, a stacked flat, or a townhouse – any attached housing) the homeowners association may cover the insurance on the building in your monthly dues. But don't stop with that knowledge. Find out what is covered. They may provide reconstruction in the case of a fire, but is it for everything, or just for the shell of the building? Would you have to replace your carpet, tile floors, vinyl, cabinets, electrical outlets, and appliances. If so you will need to provide this information to the next vendor with whom you will work.

Your insurance on a condominium is half way between renter's insurance and that for an owner of a house. Since it does not cover the structure the costs are significantly lower. It will cover liability, should someone trip on your front porch and sue you, lost luggage and purses in a theft or while traveling and other elements not associated with a renter's policy. It is called Condominium Owners Insurance and you want to have this activated from day one of your closing. It will cover the appliances, cabinets, etc. in a fire that the HOA insurance does not. Again, shop this in advance.

Title Insurance is a little more complicated than the picture I will paint here. Read your Title Insurance policy which will most likely be ordered by Escrow. Basically, it covers the value of the property in a case where there is someone that claims to own it other than the Seller. Let's say that the Seller obtained the property by inheritance from the Seller's recently deceased mother. A year later, an adopted daughter of that same mother, finds out the house has been sold. The daughter wasn't mentioned in the official will but she contests who is the true owner of the property in court. The title search, which precedes the issuance of the Title Insurance, should have turned up that court filing. If it did not, and the daughter successfully obtains the legal title and the right to possession, the Title Insurance would most likely be obligated to make up the loss to the Buyer.

Homeowners Association insurance may not cover every possible loss. A condominium board of directors in St. Louis may choose not to obtain earthquake insurance, not being aware that the largest earthquake in the contiguous United States occurred there a couple of hundred years ago. Often this is done for economic reasons, say if it were to add $200 per month to the association dues, which it could easily do in California or Alaska for instance. And I wonder, how many Hawaiian condos have volcano insurance on them? So understand your risks, the costs of insurance to cover them, and what would make you feel comfortable.

If you are one of those fortunate families who can pay all cash for a house or a condo, do not forget to buy your insurance. A home can be flooded or burned down the day after close of escrow. A one day delay in obtaining a policy could be the difference between security and financial disaster.

CHAPTER 20

The Truth

A lot of game playing goes on in the home buying arena. Here is a simple truth – the money you will save by lying about loans, Buyer's incomes, and debts is not worth the risks. Whether you look at it from a faith-based, moral-based, or legal-I-could-go-to-prison basis, it rarely works out. Be truthful about all things when buying a home and getting a loan. If you have committed a fraud by lying about one of these conditions, the seller usually has the right to cancel the contract.

Here is an example. Let's say I am an attorney living in Vail, Colorado with an office in Denver. Occasionally, it snows bad enough that I can't get home to Vail and I decide to buy a little condominium for those nights when I am snowed down the mountain. So I apply for a loan to purchase my second home from a new home builder in Denver. Three weeks before the close of escrow a couple walks into the sales office and says, "We are the renters for the attorney's unit and we want to see it." The attorney has lied, committed fraud, and the salesperson is obligated to report this to the lender. Because the loan will now be denied the seller may choose to cancel the sale. The reward – a better interest rate that would save the attorney $20 per month on his payments. The risk – a lost contract, or worse yet, a permanent timeshare residency in Ft. Leavenworth, Kansas for a year or two.

The people who are responsible for obtaining your information before approving the loan will be quite diligent. When it comes to debts, income, time on the job, time in your career, credit scores, and other elements it is highly unlikely that you will sneak anything past them. If you try, and they catch you trying, you can expect lender's documentation hell to kick in and this will delay your closing at the very least. Once they consider you a liar, it is almost impossible to get them out of their 1000-questions mind set.

So tell the truth. If you don't know just say, "I don't know, but I will find out." You can check your credit card and other debt balances at www.annualcreditreport.com or on the last statement the creditor sent to you. If you have bad debts or unpaid collection accounts or judgments you will want to know this before you start shopping for a home so check it in advance.

CHAPTER 21

Taking Title

The shortest chapter could also be the most important under certain conditions. If you are single and un-partnered you need not read this chapter. As long as you are married, together, and healthy it does not much matter how you take title to the property. However, IF ANY OF THAT CHANGES it matters a great deal! From Escrow get a How to Take Title Chart and read it carefully.

By law in most states only an attorney can advise you on how to take title. A title officer cannot, your lender cannot, Escrow cannot, your Realtor cannot, and certainly I cannot. But this is important. If you cannot afford an attorney at the very least ask your parents, family and friends who already own, how they took title. The older the person, the better, especially if they have a title story that is pertinent to the decision.

Story – Doris and Robert had been married 19 years when they bought the home in Lawrence, Kansas in 1965. It cost them $18,000. Robert passed away in 1991. The house at that time was valued at $164,000. Because they had taken title as Joint Tenants with Right of Survivorship, Doris" inherited" from Robert his half of the home. This meant that in August of 1991 Doris owned her $82,000 half of the home and now Robert's half of $82,000. She moved to Arizona the next year turning the house into a rental. In 1994 Doris decided to sell the home at the same price it appraised for in 1991. Doris had to pay capital gains tax on her half of the improved value which totaled $73,000 ($82,000 minus $9,000, the cost of her original half) but did not have to pay any capital gains on Robert's half. Her half taxes came to $20,000 but if she had had to pay his half it would have been $40,000. A huge difference, just because of the way they took title to the home in 1965.

CHAPTER 22

The Best Kept Secret

Well, you found the home, your offer was negotiated to a successful level, you got the loan done, escrow has closed, and you've picked up your keys. The best kept secret is really very simple. No matter what, do your best to hang onto every piece of real estate you ever buy. If a property is heading in to trouble then sell it and trade into more real estate. Property ownership over the long term has exceeded the value of every stock market, every metal, every bond, almost every business, and every other opportunity in America for a very long time. If you have your focus on this as long term investment you will do very well.

AND, it will be your hearth, your home, the place for your family. You will in later years remember with fondness all the Thanksgiving dinners, the birthday parties, the joys of your years there. Home $175,000, Monthly Payment $1,200, Memories – Priceless.

Moving Soon?

See our website for the soon to be released, A Moving Story by a member of the Bekins Family of trucking fame.

ABOUT BOB –

If you are thinking about a real estate transaction in **San Diego County, California** start first by contacting Bob. He has lived in Fallbrook, La Jolla, La Mesa, Vista, Escondido, UTC, Cardiff-by-the-Sea, Solana Beach, Encinitas, Oceanside, and Carlsbad. With over 20 years experience in new homes and resale homes, Bob has helped families with over a thousand real estate transfers. Listening to your needs and then translating that into a competent search or marketing effort and close of escrow is his only goal. Whether you need to find a home or sell one, he can help make the process easier, more fun, efficient, and deliver the results you seek.

Contact him now:
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NOW SEE THE CHECKLISTS
WHICH FOLLOW

Using the Checklists

Print a copy for each agent to interview, each home, each everything. Make good notes on your checklist and share the house information with your Realtor if you are using one. Write everything down. You probably see many homes and making notes that will remind you of each one will be essential to remembering them later. Ask your agent to print out a separate copy for you of each home's MLS detail that he is taking you to see. That way you can make notes right on the pages. Ask the agent not to schedule too many homes in too short a time. If you find one you like, you may wish to spend more time there than the "schedule" calls for. When viewing homes and a seller or a New Home Sales Representative asks you a question, you answer. If your agent answers for you, tell them to back off with a subtle, "I'll take this one." Your agent should be asking you questions and listening to your answers. He should not be answering questions for you and forming your opinions about properties. That is your job. Be vocal with your agent about what you like in the homes. This feedback will be critical to your mutual success.

Take a clipboard and a couple of pens with your print outs of the materials you will be using that day. Digital photos can be extremely helpful later when trying to recall what you saw and when. Make your first picture the address plate of the home so that you know the ones which follow belong to that residence.

CHECKLIST ONE

Finding Someone to Represent You

Here are the questions to ask:

Give me a brief history of your career and which offices you have been in, please.

How many transactions have you handled in the last year? ________________

How many transactions have you handled in the last two years? ____________

Who did you represent, the Buyer or the seller? _________________________

What are the addresses of the homes you sold? _________________________

What are the addresses of the homes you sold? _________________________

What are the addresses of the homes you sold? _________________________

What are the addresses of the homes you sold? _________________________

What are the addresses of the homes you sold? _________________________

What were the details: price, size of home, were they in your “farming area?” ______

May I ask some questions of your clients? ________________________

Who can I call or email for a recommendation? ______________________________

Are you a Realtor? ______ Of what Association are you a member? _____________

What is your Real Estate License number? _________________________________

Do you require a Buyer broker agreement to work with us in finding a home? _______

What is the duration of that agreement? __________________________________

What else should we know about you? ____________________________________

Do you have any trips/vacations planned for the next 60 days? __________________

CHECKLIST TWO

Knowing What You Want

Why are we buying a home: ____

How long do we expect to own this home? __________________________________

Where is the down payment money coming from? _____________________________

Where is the closing cost money coming from? _______________________________

How long will it take to get these monies? __________________________________

Do we want a newly built home or a resale? ________ Oldest Acceptable? __________

Do I want move-in ready or one that I can customize? ___________________________

	Need	Want
Bedrooms, how many?	_______	______
Bathrooms, how many?	_______	______
Square Footage, how much?	_______	______
Garage spaces needed?	_______	______ Style _____

Basement Needed? ____________ Attic ? __________ # of Multi-Use Rooms?_____

Pool? _____________ Spa? _____________ BBQ? _________ Playground? _____

Do I mind or prefer if home is in a Homeowners Association? _____________________

Area? ____

Close to? ____________ __________ _____________ ___________ ___________

School District requirement? ____

What is the longest acceptable commute time? _____________ Distance? _________

Style of Architecture? ____

What is our Ideal Move-In date? __________________

Other Notes: ____

CHECKLIST THREE

Finalist Homes Questions

Schools and ratings Elementary: ____________________________ Rating: _____

Names, locations Middle School: _________________________ Rating: _____

Distance High School: ___________________________ Rating: _____

Homeowners Association: Required reserves: __________ Actual Reserves: ________

Percentage of Delinquency: __________ Condition of Amenities: _________________

Is there On Site Security: _________________________

Property Management Company: ____

Read CC&Rs, By Laws and Rules and Regs: ___________________________________

Interview Management Company: ____________________

Interview at least three neighbors ____

Interview at least three neighbors about other neighbors_________________________

This phrase works: "We are thinking about these homes, do you live here? How is it?" If all bad ask, "What can you say is the nicest thing?" If all good, "If you had to stretch to find something bad, what little thing would it be.?" "How does the HOA work for you?" "Do they keep things up?" "Where is the President's place?"

If there is one, interview the On-Site Security Officer

Interview the HOA President

What basic needs is this home lacking?

What extra does it have that I did not expect?

CHECKLIST FOUR

Self Inspection of the Home

(NOTE SELF INSPECTION IS RECOMMENDED ONLY FOR NEW HOMES. FOR OLDER HOMES YOU ARE HIGHLY ADVISED TO HIRE A PROFESSIONAL INSPECTOR WHO IS A LICENSED CONTRACTOR WITH A BACKGROUND IN HEATING SYSTEMS AND PLUMBING.)

Toolkit to take with you: 100 foot garden hose, night light and extra bulb, flashlight, latex gloves, ladder, oven thermometer, wiggle waggle stick (long pole with a light ribbon tied to it)

Do these things in this order. Do not do all items in one room and then do all items in the next room. You will forget things that way. Focus on each system separately and inspect that system through all elements and rooms before moving on.

Open and close every window in the home.

Open and close every door, including closet doors

Open and close every appliance door

Open and close every garage and exterior door

Did they all move smoothly?

Did they secure and lock properly?

Are there gaps around the frames when closed or are they tight and free of air flow?

You can close everything and turn on all the exhaust fans in the house (bathrooms, laundry, kitchen hood) and then feel around door and window frames for incoming air.

Notes: ____

Notes: ____

Notes: ____

Notes: ____

Run the full cycle of each appliance:

Dishwasher: _________ Then examine for water on the floor, steam leaks during cycle, any water left afterward in bottom of chamber.

Range or Cooktop: ____________ All burners work fully? All work fully on and simultaneously without popping a circuit breaker?

Oven: __________ Good heat? If you take an oven thermometer how hot does it get?

Refrigerator: __________ Is it cold? Is the freezer really cold? Any ice build up? Does the water come through the door? Does the ice come through the door? Is it producing ice? Is it clean in the cooling coil area? Is it on a separate circuit breaker?

Microwave: ___________ Take a microwaveable bowl with you and run tap water and zap it, does it heat nicely? Does the timer work OK?

Hood: ____________ If it has more than one speed do they both work? Is there a light and does it work? How clean is the filter and the vent above it?

Heating and A/C system: _____________ Is all construction trash removed from the chamber below the filters, in and around the equipment? Are the filters in place and clean?
Does it heat?
Does it cool?
How much noise is there from the vents?
Are the vents well secured to their supporting drywall or framing?
Is the flow of air from each vent adequate for the size of the room where they are located?

Flush all the toilets and watch the water go down. Does it seem to go quickly or slowly? Then turn on all the water in the home at once – every faucet, every shower/tub and flush all toilets simultaneously. Do they slow down significantly?

Test every Smoke Detector. They all should have a test button.

Check all outlets with your night light tester.

Check all half-hots to the switches associated with them.

Walk every square foot of the land, including flower beds.
Does anything sink down when you walk on it?
Is it spongy or outright wet?
Why?
Look for low spots where water could accumulate.
Does the neighboring properties drain into their own, or onto your property?
Does the land slope away from the home or slope toward it?

If it slopes toward it, are there proper drainage swales to draw the water off and away from the footings of the home?

Run a hose down any yard drains to assure they are not plugged up.

Make sure water will come out of every hose bib outside the home with enough pressure to do you some good.

Check gutters and downspouts to assure clean and properly connected. See where the water is directed and make sure it flows away from the footings of the home.

Lean against all fences and make sure they do not move.

Winter trees may look dead. If a stem snaps off it is dead. If it bends the tree is alive.

Turn on all sprinkler systems and if they have one, test timer through its full cycle.

WHEN YOU ARE FINISHED BE SURE TO TURN EVERYTHING OFF. NOTHING LIKE HACKING OFF THE SELLER BY LEAVING THE AIR CONDITIONING AND THE OVEN ON. REMEMBER YOU WILL BE ASKING THEM FOR THINGS IN THE NEGOTIATIONS AND YOU WANT THEM TO LIKE YOU. LOCK UP THE HOUSE WELL AND PUT EVERYTHING BACK WHERE YOU FOUND IT.

CHECKLIST FIVE

What an Accountant Can Do For You

(Before you go, have a clear idea of your price range, your reserves, the prevailing interest rate, what type of loan you are getting, and the cost of a buy down on the interest rate.)

What amount of down payment would maximize my tax advantages?

Should I buy down the interest rate on my loan?

Will this pre-paid interest pop me into a lower tax bracket and how much will I save?

What deduction should I post on my W-4 form at work to end up the year with no more taxes owed and no refund?