

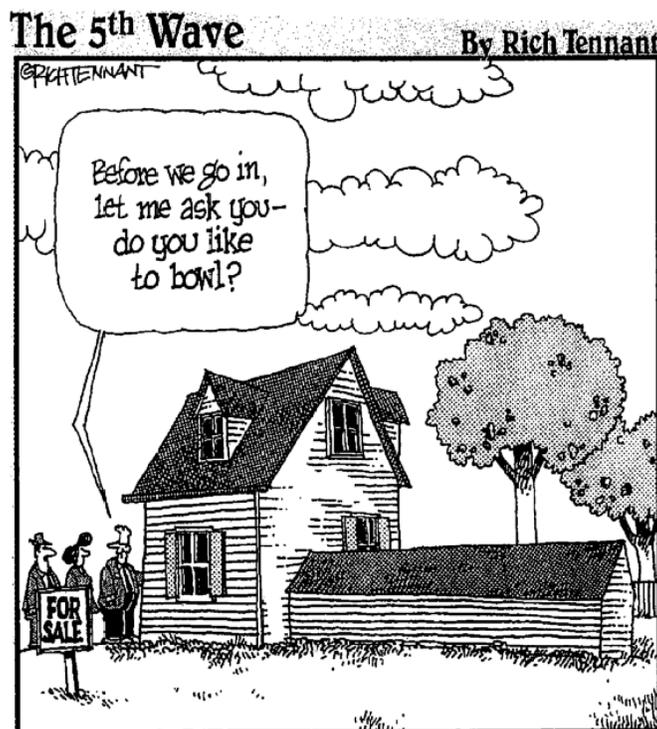
Chapter 3

Shopping For a Home

Overview

By now you should have a pretty good idea of how much money you can spend on a home and whether you are ready for that responsibility. You have made the decision to buy a house and you've probably started your "wish list" for what you want your house to be like. This chapter will give you the information you need to be a smart homebuyer. After reading this chapter you will be able to:

- Identify your housing needs and priorities
- Understand the different types of homes and types of ownership
- Understand your rights under the Fair Housing Act
- Know who your home buying team is and what their jobs are
- Have ideas for how to find the right house
- Evaluate the location, structure and features of homes
- Figure out how much you should pay for a house
- Make an offer on a house
- Negotiate the best deal on a house
- Understand and plan for contingencies in your offer



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Deciding What You Want

“A man travels the world over in search of what he needs and returns home to find it.”

--George Moore

Notes:

When you buy a home, not only do you need to consider the type and size of home you want to buy, but you must also consider the type of neighborhood or part of town you want to live in. Do you want to live close to where you work or will you have to drive quite a distance? Will your children walk or ride bikes to school or will they ride a bus? How close do you want to live to grocery stores, churches, or schools? Do you want to live in the city or in a country setting?

Needs and Wants

Earlier, we suggested the top five things your COULD have, and that list out to help you *Wants and Needs* of this chapter. Focus



you NEED – the things that are most important to you. Put an X in the column that most describes your feelings about each feature. Use the comments column to explain: perhaps a garage is okay if it is detached, but you do not want a carport.

that you make a list of house MUST have, MUST NOT have. Pull fill out the *Housing Worksheet* at the back more on the things that

This is where you need to consider your lifestyle and the kind of house you need:

- What things mean the most to your family?
- How many bedrooms and bathrooms will you need? Will you need more or less in the near future?
- Is your home the center of your family activities, or simply the place you sleep when your activities end?
- Are you a very private family or do you prefer to bring guests into your family life?
- Do you entertain formally or informally?
- What kind of cooking do you do? Will you need a large food preparation area and lots of storage or will a smaller kitchen space work for you?
- When do you do laundry? Considering noise and convenience, what is the best location for your laundry facilities?
- Do you need special provisions for children’s activities? What hobbies do you have? Will you need extra storage or special work and play spaces?
- Do you need play space for children?
- Are you looking for a house you can fix up?



- Do you need a house without stairs, with wheelchair ramps, or extra-wide doorways?
- Do you enjoy gardening and yard work? Do you have hay fever and a brown thumb?
- Do you have pets?

This list will be very helpful for you and your real estate agent as you look for houses. If your agent knows what is most important to you, they can help you better.

Covenants, conditions and restrictions (CC&R):
 Agreements or restrictions in real estate documents that regulate the use of property.

Notes:

Remember that there is no such thing as the perfect house. The key is to find a house as close to what you want as possible. Be prepared to make compromises, but find a home that's comfortable for you. Paying attention to your Needs and Wants chart will encourage you not to buy a house simply because you like the color of the carpet.

Types of Homes

There are many types of homes and different ways to own them. Not all homeowners live in single-family homes. You may need to consider the type of housing that is best for you and your family:

Single Family

Single-family homes are either single, stand-alone houses or they can be attached to one other house. When you buy a single-family house you own the house and the land it is on, and you can decide what you want to do with it. If the house is attached to another you will probably have a party wall agreement with the neighbor that says you will equally share any repairs to that wall.

Duplex, Triplex, Fourplex

These are homes with two, three and four homes attached to each other on a single lot. Many people buy these types of homes and share the property with family members. Some people buy them and live in one unit while renting out the others to help pay the mortgage.

Planned Unit Development

These homes are part of a subdivision that may have some common areas such as parks or other features shared with neighbors. The homeowner owns the house and the land it is on and pays a monthly or annual fee to an association to take care of the common areas. There will probably be **covenants, conditions, and restrictions (CC&Rs)** that set out extra rules about what you can do on your property. These usually apply to the color of your



Homeowner's association:

An organization of property owners within a geographic area.

house or making changes to the outside of your house or whether you can store a recreational vehicle at your home. You should always make sure you know what the CC&Rs are before you decide if you want to buy the house. If they seem too restricting, you will want to choose a different type of housing.

Notes:

Condominiums

These homes are sometimes considered a good “starter home” because they are generally smaller and less expensive than conventional single-family homes. Condominiums may look like apartments or townhouses, as they are attached to other homes and share common areas. Each owner makes decisions about the care and repair of the inside of their home, and a **homeowner's association** makes decisions and pays to maintain the land and common areas. Condos also have CC&Rs that control what owners can and can't do with their homes, and the association fee can be very high because it includes landscaping, property tax, water, homeowners insurance, and other items for the care of the property.

If the homeowners association votes to make repairs or improvements that you don't agree with, you will be required to pay your share of the bill anyway. It is important that you consider all rules and regulations before buying a condo. Condo owners get the benefits of homeownership without having to shovel the walk in the winter or find someone to fix the roof if it leaks, but the fees could get expensive.

Manufactured Homes

A manufactured home may be an appealing option for you. These homes come in a variety of styles, sizes, and floor plans. Manufactured homes can be installed on your own land, in a rental community, or in a planned subdivision.

Manufactured homes are built in factories to meet the federal Manufactured Home Construction and Safety Standards, also known as the HUD code. The code, which is administered by the US Department of Housing and Urban Development (HUD), regulates the home's design and construction, strength and durability, transportability, fire resistance, and energy efficiency. It also sets performance standards for the heating, air-conditioning, plumbing, thermal and electrical systems.



Because these homes are built in factories, they are built in an environment where the weather, design elements, construction methods, worker performance and training, materials purchasing,

inventory, and quality can all be tightly controlled. This results in typically lower costs to build the homes, and allows the homes to be sold at a lower price.

(Source: "Today's Manufactured Home" Northwest P.R.I.D.E., 1998)

"A good home must be made, not bought."

--Joyce Maynard

Neighborhoods



When you visit a house, take a look at the neighborhood it is in. Notice how the homes in the area are maintained. Is the neighborhood quiet - or busy with children riding bikes and playing? Go back and visit the area at a different time of day so you can get a feel for what the

neighborhood is like day and night.

Notes:

Pay attention to what the house's resale potential is. Is the house similar to the others in the neighborhood? Take a careful look around and get a feel for the area.

The way the neighborhood is designed will have a lot to do with the amount of traffic that goes through or whether you can walk to stores and schools or if you must drive. Take a look at the features of these two types of neighborhoods, and think about which one suits your family's needs best:

Conventional Suburban	Traditional Neighborhood
Houses set back away from the street	Houses pulled up to sidewalks, people given priority over cars
Many cul-de-sacs and looping streets, through streets congested	Streets networked for alternate routes: smaller, slower traffic
Garages highly visible, long driveways	Garages behind houses, in alleys
Exclusively residential homes of equal value	Variety of types of home: single-family, townhomes, cottages, etc
Single-use zoning; must rely on car to get to shopping centers, strip malls	Zoned for mixed-use, corner store common. Walking to store or café possible
Few sidewalks	Sidewalks common
Limited to specific income groups	All income groups represented
Civic buildings don't normally receive distinguished sites	Well-placed civic buildings are symbols of community identity
Most families need multiple cars	May need fewer cars because of being able to walk places

(Source: www.westhaventn.com)



Your Home Buying Team: Who Can Help

Real Estate Agent: A person who is authorized to act as an agent for the sale of land.

Realtor: A real estate agent who is a member of the National Association of Realtors.

There are many real estate professionals who can help in finding and purchasing your house. Let's take a look at who they are and what they can help you with:

Real Estate Agents

The real estate agent is one of the most important members of the home buying team. They are licensed by the state and are trained to sell real estate. Real estate agents can represent either the buyer or the seller, although some agents specialize in one area.

Notes:

Real estate agents make their money by matching up sellers and buyers. The seller usually pays them a commission, or percentage, of the purchase price of the house. When the agent works with both the buyer and the seller, they get the whole commission. The commission is split if there is one agent representing the buyer and one for the seller.

A listing agent is the agent who has a contract with a seller to advertise their property and represents the seller when an offer is made. A buyer's agent has a contract to represent the buyer and usually gets paid through a split commission. Whether an agent is the listing agent, the buyer's agent, or is representing both sides, they have a legal obligation to be fair and honest to both the buyer and the seller. They may not hide information about the house, even if it will hurt their client's chances of getting a better deal. Remember, unless you have signed a contract with a real estate agent to represent you, the agent works for the seller.

The Real Estate Agent's Job

- Talks with you about what you want in a house
- Helps you get pre-qualified with a lender
- Researches homes available in your price range
- Gives you copies of the listing sheets describing homes for sale that meet your needs
- Helps you determine how much homes are worth, based on other homes that have sold recently
- Takes you to homes you think you are interested in
- Refers you to home inspectors
- Helps you write the purchase offer
- Negotiates with the seller to get the right price
- Helps you find a good lender to finance the home
- Refers you to other professionals to complete the home buying process



- Explains the legal paperwork so you understand it

Finding a Real Estate Agent

The best way to find a good real estate agent is to talk to people you know who have bought or sold a house recently. You will be relying on the agent to give you good advice, so it is important that you find someone you can trust. Talk with others and ask them for recommendations.

It's a good idea to interview more than one agent before you decide who you will work with. Talk with them about what you're looking for, and get a feel for whether you think they will work for you. You can check on a real estate agent's professional record by calling or writing the state real estate commission or a local Association of Realtors. Once you have found an agent you like, there is no need to work with anyone else. That agent can sell you any house you like. Other agents may try to get you to work with them too, but remember that your agent is working hard to find what you want. If you sign a buyer's agent agreement, it may be illegal to work with another agent.

If you feel that the agent is steering you away from certain houses or neighborhoods because of your race, religion, national origin or other illegal reasons, you should contact the agent's broker or the local U.S. Dept. of Housing and Urban Development.

Broker

Only a real estate broker can open a real estate office. If you are working with a broker, you're working with someone who has more training and experience than an agent. Agents work for brokers. If you ever have a problem with a real estate agent or feel they are not representing you as they should, contact their broker. The broker is legally responsible for the actions of the agent.

Lender

A lender can be a bank, a savings and loan, a credit union, a mortgage company, government agency, or even private individuals. Most homebuyers will have contact with a lender before they start looking at houses. Since you will want to know how much money you can borrow, you will need to see a lender to get pre-qualified so you will know what price range you can look in.



A lender will ask you questions about your income and your debts. They will get a copy of your credit report and discuss it with you to

“Nothing astonishes men so much as common sense and plain dealing.”

—Ralph Waldo Emerson

Notes:



Pre-qualifying: The lender has agreed to lend you money for the purchase of a home, but is not committed to a certain loan amount.

Pre-approve: The lender has agreed to lend you a certain dollar amount for the purchase of a home.

Notes:

find out how much money you could borrow. After doing some calculations the lender will tell you how much money the lender would probably lend you, what home price you should look at, how much down payment you will need, and how much your monthly payments will be. This is called **pre-qualifying**, and you shouldn't have to pay a fee for this. However, it is important to remember that the pre-qualification process does not guarantee that you will get the loan. The lender does not check the information you give them; they are just giving you an estimate based on what you told them. If your financial situation changes or there are problems with something you told them, you may not get the same amount.

You might also consider having a lender **pre-approve** you for a home loan. We will discuss pre-approval in more detail in the chapter about mortgages. Basically, it means that you go through the whole loan application process, the lender checks all of your information, and gives you a pre-approval letter that states the amount the lender will lend you.

The Lender's Job

- Evaluates the borrower's financial situation
- Finds the right loan product for the client
- Explains payments and all costs related to the loan
- Walks clients through the loan process and answers questions
- Finds the best rates available
- Advises clients in general, including when to lock in an interest rate

Finding a Lender

Finding the best loan package is important, and can save you money. It is important to find a lender that will listen to you and understand your situation, especially if you have had financial problems in the past.

The business or real estate sections of your local newspaper will often have information on mortgage lenders' rates. You should also check with your bank or credit union, as they may give you good service, terms or pricing because you are already their client. You can also ask your real estate agent and friends for recommendations for lenders that they might have used. Nonprofit housing organizations can also refer you to lenders who work with low- and moderate-income homebuyers. The Yellow Pages will give you numbers for lenders you might be interested in. Your real



estate firm may also have access to a computerized service that will investigate mortgage loan rates for you.

Escrow Officer

An escrow officer is an independent person who works for both the buyer and the seller. During the time between the date the **purchase contract** is signed and the date the **closing** actually takes place, your sale is in **escrow**. There are a lot of things that need to happen in escrow to make sure that your purchase goes through and that everyone carries out their part of the contract. The person who manages the escrow is the escrow officer. The buyer and seller usually split the cost of the escrow officer's fee.

The Escrow Officer's Job

- Works as a neutral party to the real estate transaction
- Keeps original purchase contract and other documents
- Sometimes holds the earnest money

Finding an Escrow Officer

Your real estate agent works with many professionals in their transactions, and will be able to contact someone to serve as your escrow officer. Unless you know someone that you would prefer to work with, you could accept your real estate agent's recommendation for an escrow officer.

Title Insurance Officer

When you buy a home you will want to know that the person selling the home to you has a legal right to sell it. In other words, you want to know that they hold the **title** to the house. A title officer knows how to research records to make sure the property is clear and that the property really belongs to the seller, and then they prepare a title report for the buyer.

The title officer works for a title insurance company that sells insurance to guarantee that the title report is accurate. All lenders require that the buyer purchase a lender's policy of title insurance that protects the lender if there is an error in the title report. There is also an owner's policy that protects the buyer. In many areas, it is common for the seller to pay for the owner's policy. If the seller is not willing to pay for it, make sure you buy it for yourself.

Purchase contract: A document used to present an offer to purchase real estate.

Closing: The completion of the real estate transaction between the buyer and the seller. At closing, all documents are signed, monies are exchanged, and title to the property is assigned to the buyer.

Escrow: The holding of documents and money by a third party prior to closing of a real estate transaction.

Title: A legal document that is evidence of ownership of real property.



The Title Officer's Job

Easements: A right of way giving persons other than the owner access to or over a property.

Zoning restrictions: City or county laws specifying how property may be used in specific areas.

CC&Rs: Agreements or restrictions in real estate documents that regulate the use of the property.

- Researches the chain of title and gives you a history of who has owned your home so you will know that the person selling the house has the right to sell it.
- Checks public records and develops a title report that will also give you other information about the property
- Looks for loans in the owner's name that used the property for security on the loan
- Researches **easements** or parts of the property that you would not be able to use because of buried cables or land set aside for possible road work
- Finds out the amounts of state, city, county, school district or other taxes, and whether or not they have been paid
- Lets you know about **zoning restrictions** or **CC&Rs** that may limit the way you can use the property
- Provides information on whether the property is part of a homeowner's association and the amount of any overdue fees

Finding a Title Officer

Notes:

You will probably never meet the title officer. The title officer is another real estate professional that your real estate agent has experience working with. He/she will be able to recommend a good title company to work with.

Home Inspector

If you buy a new home, there is usually a one- or two-year guarantee from the builder that there will be no major problems with the home. If you buy an existing home, however, you don't always have that kind of guarantee. Most existing homes are sold "as is" and if you discover a major problem after the sale, you are responsible for taking care of it. But, whether you buy a new home or an old home, each should have a home inspection, usually performed by a professional.

"Consider a professional home inspection that includes the roof, drainage system, crawlspace, foundation, frame and mechanical systems. A \$400 inspection can save thousands of dollars in repairs of flaws left unfixed.
--Readers Digest, *January 2004*

A home inspection, usually paid by the Homebuyer, identifies problems in the making and recommends preventive measures which might avoid costly future repairs. The purchase of a home is probably the largest single investment you will ever make. You should know exactly what to expect—both indoors and out—in terms of repair and maintenance and their costs.

A home inspection can average about \$250, but may save you much more money in costly repairs. Because of the cost of the inspection, it is a good idea to make the contract to buy the home

contingent on the home passing the inspection. This would make it possible for you to get your earnest money back and cancel the sale if the inspection shows too many problems.

Contingent: Meaning that there are certain conditions that must be met before a contract is legally binding.

It is a good idea for the buyer to accompany the home inspector as they examine the house. Make sure the inspector is insured before you hire them. Ask for a written report with pictures of any problems that are found.

Notes:

The Home Inspector's Job



- Checks the structure of the home, including the foundation, roof, walls, floors, ceilings, windows and doors
 - Inspects mechanical parts of the property such as plumbing, electrical systems, heating and air conditioning
 - Checks ventilation and insulation of the home
 - Points out important features of the home
- Gives advice on normal maintenance that should be done
- Prepares a written report on his findings

Don't expect everything on the inspector's list to be fixed before you buy the home. He will point out certain things so you are aware of them, and then you must make the decision about whether to buy the home or not, based on what he finds and what the seller can be expected to fix. The home inspection can protect you against major problems like a leaking basement or roof, or dry rot on the deck.

In some states, home inspectors don't have to be licensed by the state. Therefore, you should ascertain the home inspector's professional qualifications, experience and business ethics before you make your selection. You can do this by checking with the local consumer affairs office or Better Business Bureau, as well as by verifying the inspector's membership in a reputable professional association. To see if your state has licensing requirements visit www.theashischool.com. If your state doesn't require licensing, be certain that such an association has a set of nationally recognized practice standards and a code of ethics. This provides members with professional inspection guidelines and prohibits them from engaging in any conflict of interest activities that might compromise their objectivity, such as using the inspection as a means to obtain home repair contracts. The association should also have rigorous membership and continuing education requirements to assure



homebuyers of an inspector's experience and technical qualifications.

Ten important questions to ask your home inspector are:

1) What does your inspection cover? Refer to the above list of items. Their inspection and inspection report should comply with a well-recognized standard of practice and code of ethics. You should be able to request and see a copy of these items ahead of time and ask any questions you may have. If there are any areas you want to make sure are inspected, be sure to identify them upfront.

2) How long have you been practicing in the home inspection profession and how many inspections have you completed? The inspector should be able to provide his or her history in the profession and perhaps even a few names as referrals. Newer inspectors can be very qualified, and many work with a partner or have access to more experienced inspectors to assist them in the inspection.

3) Are you specifically experienced in residential inspection? Related experience in construction or engineering is helpful, but is no substitute for training and experience in the unique discipline of home inspection.

4) Do you offer to do repairs or improvements based on the inspection? Although some inspector associations allow the inspector to perform repair work on problems uncovered in the inspection. Other associations strictly forbid this as a conflict of interest. We do not recommend using an inspector who also performs repairs.

5) How long will the inspection take? The average on-site inspection time for a single inspector is two to three hours for a typical single-family house; anything significantly less may not be enough time to perform a thorough inspection. Additional inspectors may be brought in for very large properties and buildings.

6) How much will it cost? Costs vary dramatically, depending on the region, size and age of the house, scope of services and other factors. A typical range might be \$300 - \$500, but consider the value of the home inspection in terms of the investment being made. Cost does not necessarily reflect quality.

7) What type of inspection report do you provide and how long will it take to receive the report? Ask to see samples and determine whether or not you can understand the inspector's reporting style and if the time parameters fulfill your needs. Most inspectors provide their full report within 24 hours of the inspection.

8) Will I be able to attend the inspection? This is a valuable educational opportunity, and an inspector's refusal to allow this

should raise a red flag. Never pass up this opportunity to see your prospective home through the eyes of an expert.

9) Do you maintain membership in a professional home inspector association? There are many state and national associations for home inspectors. Request to see their membership ID, and verify as you think is appropriate.

10) Do you participate in continuing education programs to keep your expertise up to date? One can never know it all, and the inspector's commitment to continuing education is a good measure of his or her professionalism and service to the consumer. This is especially important in cases where the home is much older or includes unique elements requiring additional or updated training.

A few final items to check before engaging an inspector is to be sure they are bonded and insured with comprehensive **Errors & Omissions** insurance (including coverage of new construction, environmental concerns, wood destroying inspect activity, referral liability; **General Liability & Property Damage insurance**, and **Workers Compensation**. They should also be **Pest Licensed** with PCO number to issue wood destroying inspect reports and their reports should be recognized by **VA, FHA, RD and other conventional lenders**.

If the report reveals problems, it doesn't necessarily mean you shouldn't buy the house, only that you will know in advance what to expect. A seller may be flexible with the purchase price or contract terms if major problems are found. If your budget is very tight, or if you don't wish to become involved in future repair work, this information will be extremely important to you.

Remember that a home inspection is not a guarantee that problems won't develop after you move in. However, if you believe that a problem was already visible at the time of the inspection and should have been mentioned in the report, your first step should be to call and meet with the inspector to clarify the situation. Misunderstandings are often resolved in this manner. If necessary, you might wish to consult with a local mediation service to help you settle your disagreement. Though many home inspectors today carry Errors & Omissions liability insurance, litigation should be considered a last resort. It is difficult, expensive, and by no means a sure method of recovery.

Follow these tips when getting a home inspection:

- Order a home inspection soon after your offer has been accepted. Some real estate contracts allow a limited number of

Appraisal: A professional estimate of the market value of a property.

Fair market value: The price at which property is transferred between buyer and seller.

Loan-to-value ratio: A percentage describing the amount of a loan compared to the value of the property.

Notes:

days (usually 5-7) to complete a home inspection and request repairs, if needed, or cancel your contract.

- If the home is vacant, confirm that the seller will have all utilities on during the inspection.
- Accompany the inspector during the examination. This is your opportunity to:
 - a) Gain knowledge of major systems, appliances and fixtures.
 - b) Learn maintenance schedules and tips.
 - c) Better understand the items that will be outlined in the written report.
 - d) Ask questions of the inspector.
- Be sure you understand all conditions identified in the inspection report and that problems have been resolved to your satisfaction before closing.
- Insist that you have a final walk-through prior to close of escrow to verify that repairs have been made and that no new problems have surfaced.
- If you have further concerns or questions about the roof or other major systems, please have a specialist in that area conduct a more extensive examination.

Appraiser

Your lender will order an **appraisal** to be done on the home you want to buy. This is to make sure that the home is worth the amount of money you will need to borrow to purchase it. The fees for the appraiser can be anywhere from \$300 to \$400, and you may pay for it at the time you apply for the loan or it may be paid at closing. To determine the home's **fair market value**, the appraiser compares the house you want with houses like it that have sold in the area. The condition of the house and any special features are also considered.



The appraiser works with the real estate agent and the lender. You will probably not even meet them.

Lenders use the appraisal to decide how much money they will lend you. They use a **loan-to-value ratio** to decide the highest amount of money they will lend on the property. Depending on the loan program, this ratio can range from 80 to 100 percent – that means the loan can't be for more than that certain percentage of the appraised value. You, the buyer, would then have to pay the rest in the down payment. If the

Notes:

appraisal is less than the price you have offered to pay, the lender may want a larger down payment. If the seller is very anxious to sell, they will sometimes lower the purchase price of the house to the appraised amount. If the appraisal is higher than the purchase price, you may have found a good bargain!

The Surveyor

Every property has a legal description that tells you where the property lines are. For most of us, the legal description is a confusing bunch of words and figures. To a surveyor, they can determine right where the property boundaries are. Especially in older neighborhoods and rural property, boundary lines are not always easy to see.

Your lender may require you to get a **survey** of the property you want to buy. This will tell the lender how large the property is and will protect you.

The Insurance Agent

When you become a homeowner, you will need to have **homeowner's insurance**. The lender will require that you have the insurance to protect their investment. They will want you to have enough insurance so that they will get their money back if your home is destroyed. However, it is possible that it won't give you back a home to live in. It is important that you make sure you have enough insurance.

The same agent that handles your car insurance can also insure your home. You will usually get a good discount if your home and car are insured in the same place. Make sure that your insurance agent is someone you can trust, who will help you determine exactly what your family needs to be protected. There are two main types of homeowner's insurance coverage: Actual Cash Value or ACV (used value) and Replacement Cost Coverage (new value).

Actual cash value covers your home in case of fire, storm, or other events. If your home is damaged or destroyed, the insurance would pay a depreciated amount depending on the age and value of your home, and will also pay a depreciated amount on your possessions. It would not give you a new home and might not pay the full cost of repairs. It is important that you have more protection.



Survey: The process by which legal boundaries of a property are determined and mapped.

Homeowner's insurance: Insurance that combines personal liability coverage and hazard insurance coverage.

Homeowner's replacement cost coverage is usually required by lenders, and will pay the actual cost to rebuild or repair your home in case of a loss, and will also pay to replace your possessions. Your agent will usually be happy to visit your new home and help you determine how much insurance you should have. He may do a safety inspection for you and recommend locks, alarms, fire extinguishers, and other safety features.

Insurance homeowner policies typically are in the following format:

Dwelling: This coverage insures your home, structures attached to it, like a porch or garage, and other structures on your property that are not used for business or rented to others. This portion will reflect your choice of either Replacement Cost or Actual Value coverage.

Personal Property – This coverage protects the personal property in your home like clothes and furniture. It also provides protection for your personal property that you take with you while away from home in many places throughout the world.

You should always check to ensure the losses covered include both natural events and human-caused events.

Loss of Use – If not included, we recommend additional coverages for Loss of Use, which provides payment for certain losses when your home is damaged and rendered uninhabitable because of an insured loss. Typically, coverage should be for the actual loss for continuing expenses that are increased over and above what you normally spend for food, shelter and related items. They will typically be covered for the shortest time required to repair or replace your home, or for your household to settle elsewhere up to a specified number of months.

Additional Coverage's - Other coverage's can include:

- debris removal;
- temporary repairs to protect the covered property from further damage;
- covered damaged caused by varying factors (such as fire, riot, etc.) to outdoor trees, shrubs and other plants;
- coverage for credit card, bank fund transfer card, forgery, and counterfeit money;
- coverage for loss of refrigerated or frozen products;
- Other types, such as extra coverage for jewelry, collectibles, etc., above a certain value

All of these additional coverage's have a dollar limit on them and in some cases, a time limit. In essence, additional coverage's should reflect your lifestyle, conditions unique to your geographic area, and items of importance to you.

It should be noted that all policies on property coverage are subject to "losses not insured" as determined by each insurance company.

Two other coverage's, which are usually standard with any policy and can be extremely important to your financial well-being are:

Personal Liability – This coverage provides payment for your legal liability up to the limits in the policy for damages because of bodily injury or property damage caused by an occurrence for which you are legally liable to which this insurance applies. In addition the policy may provide for the payment of your defense against these claims or lawsuits.

Medical Payments to Others – this coverage may pay medical expenses up to the limits in the policy for people who are on your premises with your permission and accidentally injured. The coverage also extends to people accidentally injured by your activities. However, the coverage does not pay for medical expenses for you or members of your family that live with you.

The price you pay for your homeowners insurance can vary by hundreds of dollars, depending on the insurance company you buy your policy from. Here are some things to consider when buying homeowners insurance.

1. Shop Around

It'll take some time, but could save you a good sum of money. Ask your friends and check the Yellow Pages. National Association of Insurance Commissioners (www.naic.org) has information to help you choose an insurer in your state, including complaints. States often make information available on typical rates charged by major insurers and many states provide the frequency of consumer complaints by company.

Also check consumer guides, insurance agents, companies and online insurance quote services. This will give you idea of price ranges and tell you which companies have the lowest prices. But don't consider price alone. The insurer you select should offer a fair price and deliver the quality service you would expect if you needed assistance in filing a claim. So in assessing service quality, use the complaint information cited above and talk to a number of

insurers to get a feeling for the type of service they give. Ask them what they would do to lower your costs.

Finally, check the financial stability of the companies you are considering with rating companies such as A.M. Best (www.ambest.com) and Standard & Poor's (www.standardandpoors.com). And, consult consumer magazines. When you've narrowed the field to three insurers, get price quotes.

2. Raise your Deductible

Deductibles are the amount of money you have to pay toward a loss before your insurance company starts to pay a claim, according to the terms of your policy. The higher your deductible, the more money you can save on your premiums. Nowadays, most insurance companies recommend a deductible of at least \$500. If you can afford to raise your deductible to \$1,000, you may save as much as 25 percent. Remember, if you live in a disaster-prone area, your insurance policy may have a separate deductible for certain types of damage.

3. Don't confuse what you paid for your house with rebuilding costs

The land under your house isn't at risk from theft, windstorm, fire and other perils covered in your homeowners policy. So, don't include its value in deciding how much homeowners insurance to buy. If you do, you will pay a higher premium than you should.

4. Buy your home and auto policies from the same insurer

Some companies that sell homeowners, auto and liability coverage will take 5 to 15 percent off your premium if you buy two or more policies from them. But make certain this combined price is lower than buying the different coverage's from different companies.

5. Make your home more disaster resistant

Find out from your insurance agent or company representative what steps you can take to make your home more resistant to windstorms and other natural disasters. You may be able to save on your premiums by adding storm shutters, reinforcing your roof or buying stronger roofing materials. Older homes can be retrofitted to make them better able to withstand earthquakes. In addition, consider modernizing your heating, plumbing and electrical systems to reduce the risk of fire and water damage.

6. Improve your home security

You can usually get discounts of at least 5 percent for a smoke detector, burglar alarm or dead-bolt locks. Some companies offer to cut your premium by as much as 15 or 20 percent if you install a sophisticated sprinkler system and a fire and burglar alarm that rings at the policy, fire or other monitoring stations. These systems aren't cheap and not every system qualifies for a discount. Before you buy such a system, find out what kind your insurer recommends, how much the device would cost and how much you would save on premiums.

7. Seek out other discounts

Companies offer several types of discounts, but they don't all offer the same discount or the same amount of discount in all states. For example, since retired people stay at home more than working people, they are less likely to be burglarized and may spot fires sooner, too. Retired people also have more time for maintaining their homes. If you're at least 55 years old and retired, you may qualify for a discount of up to 10 percent at some companies. Some employers and professional associations administer group insurance programs that may offer a better deal than you can get elsewhere.

8. Maintain a good credit record

Establishing a solid credit history can cut your insurance costs. Insurers are increasingly using credit information to price homeowners insurance policies. The federal Fair Credit Reporting Act provides that your insurer must advise you of any adverse action, such as a higher rate, at which time you should verify the accuracy of the information on which the insurer relied. (Refer to Chapter 2, "Shopping for a Home" for more detailed information on credit issues.)

9. Stay with the same insurer

If you've kept your coverage with a company for several years, you may receive a special discount for being a long-term policyholder. Some insurers will reduce their premiums by 5 percent if you stay with them for three to five years and by 10 percent if you remain a policyholder for six years or more. But make certain to periodically compare this price with that of other policies.

10. Review the limits in your policy and the value of your possessions at least once a year

You want your policy to cover any major purchases or additions to your home. But you don't want to spend money for coverage you don't need. If your five-year-old fur coat is not longer worth the \$5,000 you

paid for it, you'll want to reduce or cancel your floater (extra insurance for items whose full value is not covered by standard homeowners policies such as expensive jewelry, high-end computers and valuable art work) and pocket the difference.

11. Look for private insurance if you are in a government plan

If you live in a high-risk area—say, one that is especially vulnerable to fires or crime and have been buying your homeowners insurance through a government plan, you should check with an insurance agent or company representative or contact your State Department of Insurance for the names of companies that might be interested in your business. You may find that there are steps you can take that would allow you to buy insurance at a lower price in the private market.

12. When you're buying a home, consider the cost of homeowners insurance

You may pay less for insurance if you buy a house close to a fire hydrant or in a community that has a professional rather than a volunteer fire department. It may also be cheaper if your home's electrical, heating and plumbing systems are less than 10 years old. If you live in an earthquake-prone area, look for a wooden frame house because it is more likely to withstand this type of disaster. Choosing wisely could cut your premiums by 5 to 15 percent.

Check the CLUE (Comprehensive Loss Underwriting Exchange) report of the home you are thinking of buying. These reports contain the insurance claim history of the property and can help you judge some of the problems the house may have.

Remember that flood insurance and earthquake damage are not covered by a standard homeowners policy. If you buy a house in a flood-prone area, you'll have to pay for a flood insurance policy that costs an average of \$400 a year. The Federal Emergency Management Agency (FEMA) provides useful information on flood information at its website at FloodSmart.gov. A separate earthquake policy is available from most insurance companies. The cost of the coverage will depend on the likelihood of earthquakes in your area.

If you have questions about insurance for any of your possessions, be sure to ask your agent or company representative when you're shopping around for a policy. For example, if you run a business out of your home, be

sure to discuss coverage for that business. Most homeowners policies cover business equipment in the home, but only up to \$2,500 and they offer no business liability insurance. Although you want to lower your homeowners insurance cost, you also want to make certain you have all the coverage you need.

For more information, consult: Insurance Information Institute
110 William Street
New York, NY 10038
Phone: 212-346-5500
www.iii.org or www.insurance.info

Finding the Right Home

Whether you are looking for your home on your own or have a real estate agent helping, you have many options for finding the right house. Let others know that you are looking for a home, and you might find a house that's not on the market yet. Check the classified advertising section of the local newspaper for lists of homes for sale, as well as advertisements for open houses. Open houses are usually held on the weekends. Sometimes the owners themselves host the open house, and others may be sponsored by the real estate agent or builder. Open houses are a good way to get a feel for the kind of houses and price ranges available in the area.

Your real estate agent can show you how to check the Multiple Listing Service (MLS) to see information about homes for sale in your area. Free real estate guides available at stores and restaurants, television programs, and internet sites are also good places to find pictures of houses you might be interested in. Some internet sites even provide 360 degree views of the rooms in the house. You will have to call the phone numbers provided to get the addresses and set up appointments to see the houses featured. If you have a specific neighborhood or part of town in mind, it would be helpful to drive through the area once in a while and look for "for sale" signs.

For Sale by Owner



While you're looking for houses, you will probably find some that are for sale by the owner. Usually, the owner is the person who is or has been living in the home, or the owner may be the builder or a non-profit organization. If you buy a house that is for sale by the owner, you should have a buyer's agent or an attorney help you in negotiating the sale and drawing up

the sales contract.

Things to Keep in Mind

As you look for the perfect home, there are some important things to know and think about as you look:

Get Pre-qualified

If you are already pre-qualified for a certain loan amount for a home, it will make your house hunting much easier. If you are pre-qualified, you will be able to narrow your search to the homes in your price range. In addition, sellers will be more likely to consider your offer if they know you are a serious buyer that is already pre-qualified for a home loan.

Keep Records

After you've looked at a lot of houses, their features will all become a blur and you won't be able to remember which house had the kitchen you liked and which had the big family room.

Keep records of the houses you look at by using a notebook just for your house-hunting information. Make a page for each house you look at. At the top of the page, write the address of the house, who showed it to you, and their phone number. Keep track of the things you don't like, as well as the things you do. Write down any problems you discover or special features that you want to remember. You may even want to sketch out the floor plan of the house, so you can remember where everything was. Ask to go see the house again, if you need to.

You might also consider taking a camera with you, so you can take pictures of different features of the homes. Keep any flyers about the home and write your notes and observations about the home on the flyer.

Check Out The Neighborhood

As you visit the house, pay attention to the look and feel of the neighborhood. Notice how the other homes are taken care of, whether there are families with children close by for your children to play with, parks or bike paths within easy reach. What is the traffic in the area like at different times of day? Visit the neighborhood during the day and at night, so you can get a feel for the area.

Notice how the house looks in relation to other houses in the neighborhood. A house that is much larger than the others in the

neighborhood may not have the resale value that it should. Be aware that the neighborhood and surrounding homes and features will affect your ability to resell the home in the future.

Know Your Rights

The Fair Housing Act is a federal law which makes it illegal to refuse to sell or rent housing to someone based on their race, what color they are or what nation they are from, what religion they belong to, their age, sex or marital status, or whether they receive public assistance. If you feel that you have been guided to or away from certain neighborhoods because of any of these things, you can report it to the U.S. Department of Housing and Urban Development (HUD), which is the department in charge of enforcing the Act. You have a right to look for homes in any neighborhood you choose.

Notes:

Under the Fair Housing Act, it is against the law to:

- Refuse to rent to you or sell you housing
- Tell you housing is unavailable when in fact it is available
- Show you apartments or homes only in certain neighborhoods
- Set different terms, conditions, or privileges for sale or rental of a dwelling
- Provide different housing services or facilities
- Advertise housing to preferred groups of people only
- Refuse to provide you with information regarding mortgage loans, deny you a mortgage loan, or impose different terms or conditions on a mortgage loan
- Deny you property insurance
- Conduct property appraisals in a discriminatory manner
- Refuse to make reasonable accommodations for persons with a disability if the accommodation may be necessary to afford such person a reasonable and equal opportunity to use and enjoy a dwelling
- Fail to design and construct housing in an accessible manner
- Harass, coerce, intimidate, or interfere with anyone exercising or assisting someone else with his/her fair housing rights

(Source: "Are You a Victim of Housing Discrimination?" US Dept of Housing and Urban Development, 2002)

To file a complaint you can contact HUD in either of these ways, or fill out the complaint form in the Appendix of this book:

- Go to www.hud.gov/complaints/housediscrim.cfm and fill out a complaint form



- Fair Housing Hub
U.S. Department of Housing and Urban Development
Seattle Federal Office Building
909 First Avenue, Room 205
Seattle, Washington 98104-1000
(206) 220-5170
1-800-877-0246
TTY (206) 220-5185

Problems to Look For

Even before you have a home inspector look at a home you're interested in, there are many things that you can watch for and avoid when looking at houses. It has been estimated that people spend about 90 percent of their time indoors. Indoor air can be more polluted than outdoor air. Some people like children, elderly, and chronically ill individuals are more susceptible to indoor air pollution. Be aware of the many indoor environmental issues when you are buying a home.

Water Damage

Water damage is a common problem with houses, and a past water damage claim can cause higher insurance rates or may even make it hard to get insurance on the house. Watch for water stains on basement walls, stains on ceilings, moss, mildew or stains on the lower edges of the house siding, stains or mildew on the underside of the roof, soggy areas in the yard, or eroded areas in the walkway or driveway, which might show possibility of water erosion.

Structure Problems

Look carefully at the lines of the house, and watch for a roof that might sag in the middle, or walls that seem to curve in or out, windows or doors that look crooked, or porches that lean or sag. All of these signal a problem that could be very costly to repair!

Heating or Cooling Systems

Ask what the usual heating and/or air conditioning bill is, and be cautious of a house where those bills are very high. Watch for main electrical services that are too small for the house size, odd smells, and lack of insulation in the attic. Remember, many of these things can be fixed, but you need to take the cost of these repairs into consideration and decide whether the house is worth it to you.

Mold

Check for any signs of mold when looking at houses to buy. Mold is caused by moisture. There are thousands of different kinds of molds. In the right conditions, some can produce toxins. Most molds are not a concern to healthy individuals. But molds can trigger asthma attacks, cause allergic reactions, and cause fungal infections in people with suppressed immune systems. In any case, living in a house with mold is not good. If you purchase a house with mold, you will need to consider how to control and prevent it.

Radon

Radon is an invisible, odorless gas that is naturally occurring. Radon decays into radioactive particles known as radon decay products. These particles are easily inhaled and deposited in the lungs where they can damage sensitive lung tissue. Radon is the second leading cause of lung cancer, behind smoking. Testing is easy and inexpensive. Fixing a home with a radon concern is possible, and new homes can be built with radon control systems.

Lead-Based Paint

Many houses and apartments built before 1978 have paint that contains lead (called lead-based paint). Lead from paint, chips, and dust can pose serious health hazards, especially to small children, if not taken care of properly.

Lead-based paint in poor condition is a hazard. Look for peeling, chipping, or cracking lead-based paint. Look for dust or chipping on surfaces such as windows, windowsills, doors, door frames, railings and banisters.

Lead poisoning can cause permanent damage to the brain and many other organs, and can result in reduced intelligence and behavioral problems. Lead can also harm the fetus. More than 800,000 children younger than 6 years old living in the United States have lead in their blood that is above the level of concern set by the Centers for Disease Control and Prevention (CDC). Large portions of these children are in families of low- income and are living in old homes with heavy concentrations of lead-based paint. The most common sources of childhood exposure to lead are deteriorated lead-based paint and lead-contaminated dust and soil in the residential environment.

Federal law requires that individuals receive certain information before renting, buying, or renovating pre-1978 housing:

Landlords have to disclose known information on lead-based paint and lead-based paint hazards before leases take effect. Leases must include a disclosure form about lead-based paint.

Sellers have to disclose known information on lead-base paint and lead-based paint hazards before selling a house. Sales contracts must include a disclosure form about lead-based paint. Buyers have up to 10 days to check for lead hazards.

Renovators have to give you a pamphlet about lead-based paint hazards before starting work.

If you want more information on these requirements, call the National Lead Information Clearinghouse at 1-800-424-LEAD.



Lead from paint, dust, and soil can be dangerous if not managed properly.

- Lead exposure can harm young children and babies even before they are born
 - Even children who seem healthy can have high levels of lead in their bodies
- People can get lead in their bodies by breathing or swallowing lead dust, or by eating soil or paint chips containing lead
 - Lead is more dangerous for children because they frequently put their hands and other objects in their mouths, their growing bodies absorb more lead, and their developing brains and nervous systems are more sensitive to damaging effects of lead
 - People have many options for reducing lead hazards. In most cases, lead-based paint that is in good condition is not a hazard
 - Removing lead-based paint improperly can increase the danger to your family

Read all information and pamphlets about lead-based paint carefully. There are a lot of things you can do to protect your family from lead. You can test your house for lead paint two ways—through a paint inspection or risk assessment. Be sure and use a certified professional. You can prevent and control lead paint by cleaning up painted chips immediately, cleaning other house surfaces weekly, and washing children's hands often. To permanently remove lead hazards, hire a certified lead abatement

contractor who will remove or seal lead-based paint with special material. Painting over with regular paint is not an acceptable solution.

Under certain assistance programs that provide help with down payment or closing costs, it may be required that a risk assessment be done on the house you want to buy. This will be an inspection to see if there is lead-based paint in the house, and to assess its condition. If they find lead-based paint that is cracking and peeling, most programs will require that the problem be fixed. This must be done carefully, by professionals who have experience and training to perform the repairs properly.

If lead is found in the home you want to buy, you will have to make the decision as to whether you want to negotiate with the seller to pay for the problems to be corrected, or decide if you want to withdraw from the contract to purchase the home.

Asbestos

Asbestos consists of naturally occurring group of minerals composed of tiny, easily inhaled fibers. Asbestos is found in more than 3,000 products that go into the construction of houses. Breathing high levels of asbestos fibers can lead to an increased risk of lung cancer. Most people exposed to small amounts do not develop these health problems. Look for signs of damaged materials. If you are concerned, you can test to determine asbestos content. To control and prevent asbestos contamination, don't disturb areas that may contain asbestos, don't vacuum dust or sweep debris that may contain asbestos, and have testing and remediation done by a professional.

Meth

Illegal clandestine drug labs may pose a health threat to unsuspecting homebuyers. Typically, these labs have been used to manufacture methamphetamine, commonly referred to as meth, speed, or crank. After an illegal meth lab is discovered by law enforcement officials, the bulk of lab-related materials, including chemicals and containers, are usually removed. However, it is possible that small amounts of contaminants may have been left behind on floors, walls, counters, carpets, furniture, sinks, drains and ventilation systems. Though usually found in small amounts, meth lab contaminants may pose health threats to persons exposed to them. Meth labs often have an unusually sweet or strong odor similar to ether, ammonia or auto parts cleaner. The windows of buildings are often covered, blacked out, or frosted. Be

aware of these warning signs when you are viewing houses for sale.

Some outdoor hazards to look for include:

Underground Tanks

Some older houses you look at may have had or still have an underground storage tank (UST) on the property. Although most residential USTs are not regulated, it is still a good idea to be aware of their existence. Find out whether the tank is empty or full and what kind of liquid is or was in it. If the tank is not being used, for example for heating oil, you may consider having it removed and testing the soil around the area to make sure no leaking occurred.

Drinking Water

Safe drinking water is important. If you are buying a house in a city, most likely you have access to a city water system. But, if you are looking to buy a house in a rural setting, consider your water source. If you have a well, you will need to consider the quality and quantity of water you have. Water testing may be necessary to make sure your drinking water is safe.

Wastewater

If you buy a home in a city or town, you will want to make sure that you have access to the city sewer system. If you are buying a house in a rural area, you may have a septic system that disposes of household sewage, or wastewater, generated from toilet use, bathing, laundry, and kitchen and cleaning activities. Sometimes, older homes are also on septic systems and have not been hooked up to the city sewer system. You may want to investigate hooking up to the sewer or make sure the septic tank is in good working order. Ask when the last time the tank was serviced.

Hazardous Waste

Household hazardous products can be found in most homes. Paint, paint thinner, oil, antifreeze, home cleaning products, and lawn and garden chemicals are just a few. To know whether a product you are using is hazardous, read the label. If you see words like "danger," "warning," "caution," or "poison," these materials are hazardous and should not go into the trash or be poured into your sewer or septic system. When buying an existing home, be on the lookout for these items. It is advisable to ask the seller to remove any items in the house, so you are not responsible for their disposal.

Other Signs of Problems

Also, watch for problems like signs of termites, ants, or other pest problems. Pay attention to things like old, flaky paint on sills or trim or the outside of the house, and floor covering that is worn in large areas. Look closely at the siding on the house and watch for wavy or spongy siding underneath, or a roof that is seriously worn or has many layers.

Negotiating the Purchase

Once you have found the house you want, you'll make an offer to the seller. To do that, you need to consider what you are willing to pay for the house. The seller sets the price for the house, and some will expect the negotiation to go on from there, while some sellers expect to get the full asking price. How do you know what to offer?

Making an Offer

There are several things to consider when deciding how much to offer for the house. Your real estate agent can help you in the process of drawing up an offer for the house, but you will need to make the decision about how much to offer for the home. You may want to offer to pay the full price the seller is asking for the home if:

- You think the house is underpriced
- You think the house is accurately priced
- The house is exactly what you want and you can't find any other house you like so well
- Houses like it have sold very quickly and you don't want to lose the house

Comparative market analysis (CMA): Written report that compares selling prices of other homes on the market similar to the one you want to buy.

Notes:

Market Value



Find out from the listing agent if they have prepared a **comparative market analysis (CMA)** on the house you want to buy. This is a written report that compares the selling prices of other homes on the market that are similar to the home you want to buy. It will also list houses that are under contract, or that have sold in the last several months. This will allow you to understand what other houses have sold for and help you decide if the price is fair.

If you don't have a CMA to look at, check with your real estate agent and ask him to help you find out what houses have been selling for. Keep an eye on the housing market and listen when others talk about buying or selling homes so you know what's fair.

Contingencies: Conditions that must be met before a contract is legally binding.

Condition of the House

There may be some problems with the house that you are willing to live with or are willing to repair yourself, in exchange for a lower selling price. Before you make that decision, you should have the house inspected and be very confident that you know what to expect. Inspect the house to the best of your ability, and question the sales agent and the owner about the condition of the home. Both the seller and the agent are legally responsible to notify you of any known problems with the house.

A home inspection could be one of the **contingencies** to be included in your contract to buy the house.

Circumstance of the Sale

If you understand why the owners are selling the house, you may be in a good position to get a better price on your new home. Here are some things to consider or find out that can help you:

- How long has the house been on the market? If the owner has been trying to sell the home for some time, they may be willing to negotiate the price with you in order to sell it.
- Do the sellers have a contract on another house that is contingent upon their selling this house? If they are anxious to get into another new home, they may be willing to come down in price.
- How much did the seller pay for the house originally? How much equity does the seller have in the property?
- Are there many other comparable houses in the same price range for sale? If there are lots of homes available, it's a **buyer's market**, and you may be able to negotiate the price because you could always go buy another house.
- Has the price already been reduced before?

Buyer's Market: A term used where there are many desirable homes for sale but not many buyers in the same area.

What You Can Afford

Before making an offer, you will need to figure out what your monthly housing costs would be if you bought the house. To do that, you need to know what the approximate costs of utilities are for the home, how much the property taxes and homeowners insurance is, and any other special fees, like condominium fees, etc. Since you have already figured out your budget, you should have a pretty good idea what you can afford for a house payment. If you took our advice and got pre-qualified for a home loan, you will already know how much money you can borrow.

Check the *Mortgage Payment Chart* to get an idea what your house payment would be depending on the amount of money you need to



borrow for your house. Remember that this chart **does not** include the property tax or homeowners insurance amounts, so your costs will be higher than this chart shows. Take the amount shown on the chart and add the monthly cost for the property tax and insurance on the home, and that will give you a good idea of whether you can afford the home or not. This is your “**PITI**” (**P**incipal loan amount, **I**nterest on your loan, **T**axes and **I**nsurance) amount.

PITI: Refers to the four payments that, together, make up a house payment. These include: principal, interest, taxes and insurance.

Make sure that you have enough money to pay the necessary down payment and the closing costs. Don't be tempted to offer more for the house than you can afford. Remember, your credit is important to your financial future, and you need to be smart when buying your own home so you can pay for all of your expenses.

Negotiating Tips

Here are the main ideas to keep in mind when deciding on a home and what to offer for it:

- Ask the agent that you are working with for a list of comparable sales prices in the area.
- Check the **tax value** of the property. Tax records are public information. The tax value may not be the market value of the house, but the tax value can help you compare the house with others priced the same.
- Know the market. If houses in the area are selling quickly you may have less time and less negotiating room.
- Find out how long the home has been on the market. If it has been several months, the seller may be feeling desperate and willing to lower the price or pay some of the closing costs.
- Keep your priorities in mind. Remember the things that you've decided your home **MUST** have. Don't let your enthusiasm overpower your good sense.
- Keep your feelings to yourself. If an agent or seller can sense that you are in love with the home, they will have the advantage when negotiating the price of the home.
- Don't be too critical of the home. Sellers are often emotionally attached to their homes. If you insult the house, the seller may not want to deal with you.

Tax Value: the value put on your property for the purpose of assessing property taxes.

Counter offer: An offer made in return by the person who rejects the previous offer.

Counter Offer

If the seller accepts your offer, you have a deal, and you can continue the process of buying the home. However, the owner may reject your offer completely if they don't like something in your offer. If they reject it, they may make a counter offer by suggesting some different terms. You may decide to just walk away from the whole



Real Estate Purchase and Sale Agreement; Earnest Money Agreement; Purchase Contract: A document used to present an offer or counter offer for the purchase of real estate.

Earnest money: A deposit made by the potential buyer to show that he or she is serious about buying the home.

“Drink nothing without seeing it; sign nothing without reading it.”
--Spanish Proverb

Notes:

Down Payment: A portion of the price of a home that is paid up front, in cash, and is not financed with the mortgage.



deal, or you can also make a counter offer in return. There are often many offers and counter offers before a home sells, so it may be a little stressful until a final decision is made. REMEMBER – unless you and the agent signed a buyer’s representative agreement, the agent is usually working for the seller, so don’t reveal to them what your top offer is. Keep to yourself how much you’re really willing to pay for your house!

Real Estate Purchase and Sale Agreement

When you make an offer to buy a house, it is presented in writing on a form called the Real Estate Purchase and Sale Agreement. There is a copy of one at the end of this book, so you can see what it might look like. This contract might also be known as a sales contract, ***earnest money agreement***, ***purchase contract***, or something similar.



This agreement becomes a binding contract when both the buyer and the seller have signed it. Both parties have to agree to any changes made to the contract. You, as the buyer, can back out of the agreement, but you may lose your ***earnest money*** deposit and could face additional costs for breaking a contract.

This contract is very detailed and includes everything that you and the seller have agreed on. If there is anything that you want left with the house, both you and the seller must agree to it, and it must be written into the contract. There are several important parts of the contract:

- Price: Whether you are offering the price the seller is asking for, or offering a different amount, that amount will always be included in the offer.
- Amount of earnest money: Earnest money is an amount of money paid to show the seller that you are serious about buying the house. There is no set amount required, but the check should be made out to the brokerage firm of the real estate agent. The earnest money will be deposited in a trust account, and will be returned to you if the seller doesn’t accept your offer. Remember that if you back out after the seller has accepted your offer, you will probably lose your earnest money.
- Legal names of both buyers and sellers.
- Address and legal description of the property.
- Proposed date of closing and date you will take ownership.
- The amount of your ***down payment*** and how the rest of the purchase price will be financed, as well as the maximum

interest rate you are willing to pay. If the bank doesn't approve your loan, you will get your earnest money back.

- A list of property the owner has said will stay with the house or that you want to be left. These items must be written in the offer, and both buyer and seller must agree to it. Sometimes it's not easy to tell what personal property is and what should stay with the house. If a swing set has been cemented into the ground, it should stay with the house. If there is any question at all, make sure it is specifically mentioned in your offer.
- The list of contingencies that must be met before the sale of the house. We will discuss some of the possible contingencies in the next section.
- A breakdown of most fees and who will be paying them, as well as the cost of any required inspections, etc.
- A time limit for the seller to accept your offer. It is important to get the seller to make a decision as quickly as possible.

Contingencies

There are often several things that must happen first, before a sale can be final. These are conditions that must be met in order for the contract to take effect. If they are not met, the sale can be cancelled and you can get your earnest money back. Be careful not to have too many in your offer, but make sure you are protected.

Some of these possible contingencies are discussed here:

- **Getting your mortgage loan at a specific amount and rate.** You might want to include a copy of your pre-qualification letter so the owner knows that you're working on getting a loan for the home.
- **Selling your present home.** Unless you already have a signed contract to sell your present home, very few sellers will accept an offer that has this condition in it, as it might drag the transaction out for many weeks or months.
- **Seller buying another home.** You won't want to apply for your loan and pay for appraisal and other fees, if the sellers don't already have a purchase contract to buy another house. You could include a certain time limit for them to find another house, and then wait that long to apply for your loan.
- **Moving into the house before the closing date.** You would probably pay rent until the loan closes, and you would agree not to ask the seller to pay for repairs after you move in. Be careful – there could be a lot of problems with this if something were to happen to the house before you close.
- **Seller continuing to live in the house after the closing date.** The seller would agree to pay you rent equal to the

amount of your mortgage payment and be responsible for all repairs until they move out. Again, be careful. This is not recommended.

- **Home inspections that show no major problems with house.** As soon as possible after your offer has been accepted, you should contact a professional home inspector and arrange for the inspection. They should provide you with two copies of the written inspection report, as the seller will also want to see a copy.

Usually the problems will not be so serious that you and the seller can't work out who will pay for the needed repairs. If there are so many problems with the house that you no longer want to buy it, you must send a letter to the seller and to the escrow officer letting them know you are canceling the contract, including a copy of the inspection report.

Be sure your agreement also allows you to do one last walk-through inspection of your own before you sign the papers at closing. This will give you the chance to make sure nothing has happened to the property that might reduce its value, and you can make sure that personal property that was to stay with the house is still there.

Market value: The current value of a home based on what a willing buyer would pay.

Clear Title: A title that is free of liens and legal questions as to ownership of property.

Escrow: The holding of documents and money by a third party prior to closing on a real estate transaction.

- **Surveys:** Depending on your circumstances, you may want to have a survey done so you have a clear understanding of where the property boundaries are.
- **Appraisal:** Your offer may also be contingent on whether the **market value** of the property is at or above the selling price of the house. Your lender may require this before giving you the loan, so this condition in the offer will give you the right to withdraw your offer if the house appraises too low.
- **Allowances:** If there are things that need to be replaced in the home, such as the carpet, the owner may provide allowances for these things to be repaired or replaced. For example, the house may be offered for \$90,000 with a \$1,000 carpet allowance. The seller would get \$89,000 and you would have \$1,000 for a new carpet. Make sure the allowance is enough to cover the expense.
- **Clear title:** Your sales contract should include a statement that says you must receive **clear title** to the property. The title insurance officer will provide you with this information.

Escrow

After both the buyer and the seller sign the Real Estate Purchase and Sale Agreement, there are many things that need to happen before the sale can close. This period of time is called the **escrow**. Escrow is the time when all those members of your home buying team are hard at work for you.

During escrow, you will apply for your loan, have an appraisal and, perhaps, a survey done on the property you want to buy, order inspections to be done and talk with your insurance agent about the proper insurance needed for the new home.

As soon as possible after your offer has been accepted, you need to apply for your loan. This may be a long process, so have patience. Your lender will want a lot of information from you to make sure that you can afford the home. We will talk more about this process in Chapter 4. When you apply for the loan, you may need to pay an application fee, and probably will need to pay for an appraisal. The lender will order the appraisal for you, and the appraiser will contact the real estate agent. You will probably never meet the appraiser.

Chapter Summary

Shopping for a home is a lot of work, but it can be a lot of fun, too. As you look at homes, your ideas may change about what you do or do not want in your own home. There are a lot of people involved in the process of finding and buying a home, which means there are also a lot of people who can help you and give you advice. In this chapter, you have learned who some of these people are and what they do for you. You have taken a close look at what your housing needs are, and should have a pretty good idea of what you're looking for in a house. We've given you tips on where to look for houses and how to watch for potential problems. We've also talked about how to make an offer for a house, and how to negotiate the price and the conditions of your contract. You're becoming a smarter home shopper! Check out the Self-Test on the next page, and then let's go on to discover the process to getting your mortgage loan for your dream home!

Self-Test: Shopping for a Home

Match the titles of the professionals in the left column with the jobs they do in the right column. Check back in the chapter if you're not sure.

- | | |
|----------------------|---|
| 1. Surveyor | A. Provides financing to pay for the house |
| 2. Escrow Officer | B. Checks the history of ownership |
| 3. Real Estate Agent | C. Evaluates the structural and mechanical condition of the house before you buy it |
| 4. House Inspector | D. Estimates fair market value |
| 5. Insurance Agent | E. Finds homes for buyers and markets homes for sellers |
| 6. Lender | F. Confirms the property's boundaries |
| 7. Title Officer | G. Makes sure you have adequate insurance to protect your house and belongings |
| 8. Appraiser | H. Works for both buyer and seller, holds important documents for the sale |

9. There are times when you would want to offer to pay the full price the seller is asking for the house. List 2 of those:

10. What does PITI stand for? _____

11. Name 4 things (other than special contingencies) you would find in an offer or purchase contract:

Mortgage Payment Chart – 30 years

Monthly principal and interest payments for 30-year, fixed-rate mortgages.

Escrow payments for taxes and insurance not included.

Loan

Amount	3.25%	3.50%	3.75%	4.00%	4.25%	4.50%	4.75%	5.00%	5.25%	5.50%
\$50,000.00	217.60	224.52	231.55	238.70	245.96	253.34	260.82	268.41	276.10	283.89
\$60,000.00	261.12	269.42	277.86	286.44	295.16	304.01	312.98	322.09	331.32	340.67
\$70,000.00	304.64	314.33	324.18	334.19	344.37	354.67	365.15	375.77	386.54	397.45
\$80,000.00	348.16	359.23	370.49	381.93	393.55	405.34	417.31	429.45	441.76	454.23
\$90,000.00	391.68	404.14	416.80	419.67	442.74	456.01	469.48	483.13	496.98	511.01
\$100,000.00	435.20	449.07	463.11	477.41	491.93	506.68	521.64	536.82	552.20	567.78
\$110,000.00	478.72	493.94	509.42	525.15	541.13	557.35	573.81	590.50	607.42	624.56
\$120,000.00	522.24	538.85	555.73	572.89	590.32	608.02	625.97	644.18	662.64	681.34
\$130,000.00	565.76	583.75	602.05	620.63	639.52	658.69	678.14	697.86	717.86	738.12
\$140,000.00	609.28	628.66	648.36	668.38	688.71	709.35	730.30	751.55	773.08	794.90
\$150,000.00	652.80	673.56	694.67	716.12	737.90	760.02	782.47	805.23	828.30	851.68
\$160,000.00	696.33	718.47	740.98	763.86	787.10	810.69	834.63	858.91	883.52	908.46
\$170,000.00	739.85	763.37	787.29	811.60	836.29	861.36	886.80	912.59	938.74	965.24
\$180,000.00	783.37	808.28	833.60	859.34	885.49	912.03	938.96	966.27	993.96	1022.02
\$190,000.00	826.89	853.18	879.91	907.08	934.68	962.70	991.12	1019.96	1049.18	1078.79
\$200,000.00	870.41	898.08	926.23	954.83	983.87	1013.37	1043.29	1073.64	1104.40	1135.57
\$210,000.00	913.93	942.99	972.54	1002.57	1033.07	1064.03	1095.45	1127.32	1159.62	1192.35
\$220,000.00	957.45	987.89	1018.85	1050.31	1082.26	1114.70	1147.62	1181.00	1214.84	1249.13
\$230,000.00	1000.97	1032.80	1065.16	1098.05	1131.46	1165.37	1199.78	1234.68	1270.06	1305.91
\$240,000.00	1044.49	1077.70	1111.47	1145.79	1180.65	1216.04	1251.95	1288.37	1325.28	1362.69
\$250,000.00	1088.01	1122.61	1157.78	1193.53	1229.84	1266.71	1304.11	1342.05	1380.50	1419.47
\$260,000.00	1131.53	1167.51	1204.00	1241.27	1279.04	1317.38	1356.28	1395.73	1435.72	1476.25
\$270,000.00	1175.05	1212.42	1250.41	1289.02	1328.23	1368.05	1408.44	1449.41	1490.94	1533.03
\$280,000.00	1218.57	1257.32	1296.72	1336.76	1377.43	1418.71	1460.61	1503.10	1546.17	1589.80
\$290,000.00	1262.09	1302.22	1343.03	1384.50	1426.62	1469.38	1512.77	1556.78	1601.39	1646.58
\$300,000.00	1305.61	1347.13	1389.34	1432.24	1475.81	1520.05	1564.94	1610.46	1656.61	1703.36

Find the amount you would have to borrow for your house in the far left column, run your finger to the right until it's under the interest rate your lender will give you, and you will find the approximate payment amount in the box. Remember, these amounts DO NOT include taxes and insurance. When those are added, your house payment would be higher.

Housing Wants and Needs Worksheet

	Very Important	Would Like	Not Important	Do Not Want	Comments
Newer home					
Home type: <ul style="list-style-type: none"> • Single family • Town home • condo 					
Home Style <ul style="list-style-type: none"> • Ranch (no stairs) • Colonial • Contemporary • Other 					
No. of bedrooms					
No. of bathrooms					
Master Bath					
Family Room					
Updated kitchen					
Dining room					
Den/study					
Laundry room					
Finished basement					
Attic					
Central air conditioning					
Updated plumbing					
Updated wiring					
Move-in condition					
Fireplace					
Skylights					
Gas range					
Hard wood floors					
Garage					
Wooded lot/privacy					
Big yard					
Fenced property					
Deck/patio					
Screened porch					
Pool					
Landscaping					
Close to school/church					
Close to employment					
Close to shopping					