



Buyer Handbook

Compliments of:

Jennifer Sylvester, Realtor

RE/MAX Paramount

40 Industrial Park Rd.

Plymouth, MA 02360

Bus: 508-747-5800

Cell: 508-331-0965

Email: Jen@JenSylvester.com

www.JenSylvester.com

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Handouts for Consumers: For Buyers

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8 Steps to Getting Your Finances in Order

1. **Develop a family budget.** Instead of budgeting what you'd like to spend, use receipts to create a budget for what you actually spent over the last six months. One advantage of this approach is that it factors in unexpected expenses, such as car repairs, illnesses, etc., as well as predictable costs such as rent.
2. **Reduce your debt.** Generally speaking, lenders look for a total debt load of no more than 36 percent of income. Since this figure includes your mortgage, which typically ranges between 25 percent and 28 percent of income, you need to get the rest of installment debt—car loans, student loans, revolving balances on credit cards—down to between 8 percent and 10 percent of your total income.
3. **Get a handle on expenses.** You probably know how much you spend on rent and utilities, but little expenses add up. Try writing down *everything* you spend for one month. You'll probably see some great ways to save.
4. **Increase your income.** It may be necessary to take on a second, part-time job to get your income at a high-enough level to qualify for the home you want.
5. **Save for a downpayment.** Although it's possible to get a mortgage with only 5 percent down—or even less in some cases—you can usually get a better rate and a lower overall cost if you put down more. Shoot for saving a 20 percent downpayment.
6. **Create a house fund.** Don't just plan on saving whatever's left toward a downpayment. Instead decide on a certain amount a month you want to save, then put it away as you pay your monthly bills.
7. **Keep your job.** While you don't need to be in the same job forever to qualify, having a job for less than two years may mean you have to pay a higher interest rate.
8. **Establish a good credit history.** Get a credit card and make payments by the due date. Do the same for all your other bills. Pay off the entire balance promptly.

Budget Basics Work Sheet

The first step in getting yourself in financial shape to buy a home is to know what you make and what you spend now. List your income and expenses below.

<i>Income</i>	
Take-Home Pay/All Family Members	
Child Support/Alimony	
Pension/Social Security	
Disability/Other Insurance	
Interest/Dividends	
Other	
<i>Total Income</i>	

<i>Expenses</i>	
Rent/Mortgage	
Life Insurance	
Health/Disability Insurance	
Vehicle Insurance	
Homeowners or Other Insurance	
Car Payments	
Other Loan Payments	
Savings/Pension Contribution	
Utilities	
Credit Card Payments	
Car Upkeep	
Clothing	
Personal Care Products	
Groceries	
Food Prepared Outside the Home	
Medical/Dental/Prescriptions	
Household Goods	
Recreation/Entertainment	
Child Care	
Education	
Charitable Donations	
Miscellaneous	
<i>Total Expenses=</i>	
<i>Remaining Income After Expenses=</i>	

8 Ways to Improve Your Credit

Credit scores, along with your overall income and debt, are a big factor in determining if you'll qualify for a loan and what loan terms you'll be able to qualify for.

1. Check for and correct errors in your credit report. Mistakes happen, and you could be paying for someone else's poor financial management.
2. Pay down credit card bills. If possible, pay off the entire balance every month. However, transferring credit card debt from one card to another could lower your score.
3. Don't charge your credit cards to the maximum limit.
4. Wait 12 months after credit difficulties to apply for a mortgage. You're penalized less for problems after a year.
5. Don't purchase big-ticket items for your new home on credit cards until after the loan is approved. The amounts will add to your debt.
6. Don't open new credit card accounts before applying for a mortgage. Having too much available credit can lower your score.
7. Shop for mortgage rates all at once. Too many credit applications can lower your score, but multiple inquiries from the same type of lender are counted as one inquiry if submitted over a short period of time.
8. Avoid finance companies. Even if you pay the loan on time, the interest is high and it will probably be considered a sign of poor credit management.

This information is copyrighted by the Fannie Mae Foundation and is used with permission of the Fannie Mae Foundation. To obtain a complete copy of the publication, "Knowing and Understanding Your Credit," visit <http://www.homebuyingguide.org>.

5 Factors That Decide Your Credit Score

Credit scores range between 200 and 800. Scores above 620 are considered desirable for obtaining a mortgage. These factors will affect your score.

1. Your payment history. Whether you paid credit card obligations on time.
2. How much you owe. Owing a great deal of money on numerous accounts can indicate that you are overextended.
3. The length of your credit history. In general, the longer the better.
4. How much new credit you have. New credit, either installment payments or new credit cards, are considered more risky, even if you pay promptly.
5. The types of credit you use. Generally, it's desirable to have more than one type of credit—installment loans, credit cards, and a mortgage, for example.

For more on evaluating and understanding your credit score, go to <http://www.myfico.com>.

Your Property Wish List

While your opinions on the type of home you want to own may change during the homebuying process, use this easy checklist to help you prioritize and make the shopping process less time consuming.

- How close do you need to be to: (a) public transportation _____ (b) schools _____ (c) airport _____ (d) expressway _____ (e) neighborhood shopping _____ (f) other _____?
- What neighborhoods would you prefer?
- What school systems do you want to be near?
- What architectural style(s) of homes do you prefer?
- Do you want a one-story or two-story house?
- How old a home would you consider?
- How much repair or renovation would you be willing to do?
- Do you have special facilities or needs that your home must meet?
- Do you require a fenced yard or other amenities for your pets?

<i>Prioritize each of these options into</i>	<i>Must have</i>	<i>Would prefer</i>
Yard (at least _____)		
Garage (size _____)		
Patio/Deck		
Pool		
Bedrooms (number _____)		
Bathrooms (number _____)		
Family room		
Formal living room		
Formal dining room		
Eat-in kitchen		
Laundry room		
Basement		
Attic		
Fireplace		
Spa in bath		
Air conditioning		
Wall-to-wall carpet		
Hardwood floors		
View		
Light (windows)		
Shade		

Tips for Finding the Perfect Neighborhood

The neighborhood you choose can have a big impact on your lifestyle—safety, available amenities, and convenience all play their part.

1. Make a list of the activities—movies, health club, church—you engage in regularly and stores you visit frequently. See how far you would have to travel from each neighborhood you're considering to engaging in your most common activities.
2. Check out the school district. The Department of Education in your town can probably provide information on test scores, class size, percentage of students who attend college, and special enrichment programs. If you have school-age children, also consider paying a visit to schools in the neighborhoods you're considering. Even if you don't have children, a house in a good school district will be easier to sell in the future.
3. Find out if the neighborhood is safe. Ask the police department for neighborhood crime statistics. Consider not only the number of crimes but also the type—burglaries, armed robberies—and the trend of increasing or decreasing crime. Also, is crime centered in only one part of the neighborhood, such as near a retail area?
4. Determine if the neighborhood is economically stable. Check with your local city economic development office to see if income and property values in the neighborhood are stable or rising. What is the percentage of homes to apartments? Apartments don't necessarily diminish value, but they do mean a more transient population. Do you see vacant businesses or homes that have been for sale for months?
5. See if you'll make money. Ask a local REALTOR® or call the local REALTOR® association to get information about price appreciation trends in the neighborhood. Although past performance is no guarantee of future results, this information may give you a sense of how good an investment your home will be. A REALTOR® or the government planning agency also may be able to tell you about planned developments or other changes in the neighborhood—like a new school or highway—that might affect value.
6. See for yourself. Once you've narrowed your focus to two or three neighborhoods, go there, and walk around. Are homes tidy and well maintained? Are streets quiet? Pick a warm day if you can and chat with people working or playing outside. Are they friendly? Are their children to play with your family?

Tips on Buying in a Tight Market

Increase your chances of getting your dream house instead of losing it to another buyer, with these easy steps.

1. Get prequalified for a mortgage. You'll be able to make a firm commitment to buy and make your offer more desirable to the seller.
2. Stay in close touch with your real estate sales associate to find out first about new listings that come on the market. And be ready to go see a house as soon as it goes on the market.
3. Scout out new listings yourself. Look at Internet sites, newspaper ads, and drive by the neighborhood frequently. Maybe you'll see a brand-new "for sale" sign before anyone else.
4. Be ready to make a decision. Spend lots of time in advance deciding what you must have so you won't be unsure when you have the chance to make an offer.
5. Bid competitively. You may not want to start out offering the absolute highest price you can afford, but don't try to go too low to get a deal. In a tight market, you'll lose out.
6. Keep contingencies to a minimum. Restrictions such as needing to sell your home before you move or wanting to delay the closing until a certain date can make your offer unappealing. In a tight market, you'll probably be able to sell your house rapidly. Or talk to your lender about getting a bridge loan to cover both mortgages for a short period.
7. Don't get caught in a buying frenzy. Just because there's competition doesn't mean you should just buy anything. And even though you want to make your offer attractive, don't neglect inspections that help ensure that your house is sound.

The Pros and Cons of Condos

Condominiums and townhouses offer an affordable option to single-family homes in most areas. But consider these facts before you buy.

1. **Storage.** Some condos have storage lockers, but usually there are no attics or basements to store belongings.
2. **Outdoor space.** Yards and outdoor areas are usually smaller in condos, so if you like to garden or entertain outdoors, this may not be a good fit. However, if you hate yard work, this may be the perfect option for you.
3. **Amenities.** Many condo properties have swimming pools, fitness centers, and other facilities that would be very expensive in a single-family home.
4. **Maintenance.** Many condos have onsite maintenance personnel to care for common areas, do repairs in your unit, and let in workers when you're not home.
5. **Security.** Many condos have keyed entries and or even door attendants. Plus, you'll be closer to other people in case of an emergency.
6. **Reserve funds and association fees.** Although fees generally help pay for amenities and provide savings for future repairs, you will have to pay the fees agreed to by the condo board, whether or not you're interested in the amenity or not.
7. **Resale.** The ease of selling your unit is more dependent on what else is for sale in your building, since units are usually fairly similar. Single-family homes usually are more individual.
8. **Freedom.** Although you have a vote, the rules of the condo association can affect your ability to use your property. For example, some condos prohibit home-based businesses. Others prohibit pets. Read the covenants, restrictions, and bylaws of the condo carefully before you make an offer.
9. **Proximity.** You're much closer to your neighbors in a condo or townhome. If possible, try to meet your closest prospective neighbors before making a decision.

5 Reasons You Need a REALTOR®

1. A real estate transaction is complicated. In most cases, buying or selling a home requires disclosure forms, inspection reports, mortgage documents, insurance policies, deeds, and multi-page government-mandated settlement statements. A knowledgeable guide through this complexity can help you avoid delays or costly mistakes.
2. Selling or buying a home is time consuming. Even in a strong market, homes in our area stay on the market for an average of 30-90 days. And it usually takes another 60 days or so for the transaction to close after an offer is accepted.
3. Real estate has its own language. If you don't know a CMA from a PUD, you can understand why it's important to work with someone who speaks that language.
4. REALTORS® have done it before. Most people buy and sell only a few homes in a lifetime, usually with quite a few years in between each purchase. And even if you've done it before, laws and regulations change. That's why having an expert on your side is critical.
5. REALTORS® provide objectivity. Since a home often symbolizes family, rest, and security, not just four walls and roof, homeselling or buying is often a very emotional undertaking. And for most people, a home is the biggest purchase they'll ever make. Having a concerned, but objective, third party helps you keep focused on both the business and emotional issues most important to you.
6. REALTORS® are members of the NATIONAL ASSOCIATION OF REALTORS®, a trade organization of more than 1 million members nationwide. REALTORS® subscribe to a stringent code of ethics that helps guarantee the highest level of service and integrity.

Questions to Ask When Choosing a REALTOR®

1. How long have you been in residential real estate sales? Is it your full-time job? (While experience is no guarantee of skill, real estate, like many other professions, is mostly learned on the job.)
2. What designations do you hold? (Designations, such as GRI and CRS®, which require that real estate professionals take additional, specialized real estate training, are held by only about one-quarter of real estate practitioners.)
3. How many homes did you sell last year?
4. Will you represent me exclusively, or will you represent both the buyer and the seller in the transaction? (While it's usually legal to represent both parties in a transaction, it's important to understand where the practitioner's obligations lie. A good practitioner will explain the agency relationship to you and describe the rights of each party. It's also possible to insist that the practitioner represent you exclusively.)
5. Can you recommend service providers who can assist me in obtaining a mortgage, making repairs on my home, and other things I need done? (Keep in mind here that real estate professionals should generally recommend more than one provider and should tell you if they receive any compensation from any provider.)
6. How will you keep me informed about the progress of my transaction? How frequently? Using what media? (Again, this is not a question with a correct answer, but that one reflects your desires. Do you want updates twice a week or don't want to be bothered unless there's a hot prospect? Do you prefer phone, e-mail, or a personal visit?)

10 Steps to Prepare for Homeownership

1. Decide how much home you can afford. Generally, you can afford a home equal in value to between two and three times your gross income.
2. Develop a wish list of what you'd like your home to have. Then prioritize the features on your list.
3. Select three or four neighborhoods you'd like to live in. Consider items such as schools, recreational facilities, area expansion plans, and safety.
4. Determine if you have enough saved to cover your downpayment and closing costs. Closing costs, including taxes, attorney's fee, and transfer fees average between 2 percent and 7 percent of the home price.
5. Get your credit in order. Obtain a copy of your credit report.
6. Determine how large a mortgage you can qualify for. Also explore different loans options and decide what's best for you.
7. Organize all the documentation a lender will need to preapprove you for a loan.
8. Do research to determine if you qualify for any special mortgage or downpayment-assistance programs.
9. Calculate the costs of homeownership, including property taxes, insurance, maintenance, and association fees, if applicable.
10. Find an experienced REALTOR[®] who can help you through the process.

How Big a Mortgage Can I Afford?

Not only does owning a home give you a haven for yourself and your family, it makes great financial sense, too.

This calculation assumes a 28 percent income tax bracket. If your bracket is higher, your savings will be, too.

Rent: _____

Multiplier: X 1.32

Mortgage payment: _____

Because of tax deductions, you can make a mortgage payment—including taxes and insurance—that is approximately one-third larger than your current rent payment and end up with the same amount of income.

For more help, use Fannie Mae's [online mortgage calculators](http://www.fanniemae.com/homebuyers/calculators/index.jhtml?p=Resources&s=Calculators) at <http://www.fanniemae.com/homebuyers/calculators/index.jhtml?p=Resources&s=Calculators>

7 Reasons to Own Your Own Home

1. **Tax breaks.** The U.S. Tax Code lets you deduct the interest you pay on your mortgage, property taxes you pay, and some of the costs involved in buying your home.
2. **Gains.** Between 1998 and 2002, national home prices increased at an average of 5.4 percent annually. And while there's no guarantee of appreciation, a 2001 study by the NATIONAL ASSOCIATION OF REALTORS® found that a typical homeowner has approximately \$50,000 of unrealized gain in a home.
3. **Equity.** Money paid for rent is money that you'll never see again, but mortgage payments let you build equity ownership interest in your home.
4. **Savings.** Building equity in your home is a ready-made savings plan. And when you sell, you can generally take up to \$250,000 (\$500,000 for a married couple) as gain without owing any federal income tax.
5. **Predictability.** Unlike rent, your mortgage payments don't go up over the years so your housing costs may actually decline as you own the home longer. However, keep in mind that property taxes and insurance costs will rise.
6. **Freedom.** The home is yours. You can decorate any way you want and be able to benefit from your investment for as long as you own the home.
7. **Stability.** Remaining in one neighborhood for several years gives you a chance to participate in community activities, lets you and your family establish lasting friendships, and offers your children the benefit of educational continuity.

To calculate whether renting or buying is the best financial option for you, use this calculator courtesy of Ginnie Mae:

http://www.ginniemae.gov/rent_vs_buy/rent_vs_buy_calc.asp?Section=YPTH

5 Common First-Time Homebuyer Mistakes

1. They don't ask enough questions of their lender and miss out on the best deal.
2. They don't act quickly enough to make a decision and someone else buys the house.
3. They don't find the right real estate professional who is willing to help you through the homebuying process.
4. They don't do enough to make their offer look good to a seller.
5. They don't think about resale *before* they buy. The average first-time buyer only stays in a home for four years.

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(www.realestatechecklists.com)*

10 Tips for First-Time Homebuyers

1. **Be picky, but don't be unrealistic.** There is no perfect home.
2. **Do your homework before you start looking.** Decide specifically what features you want in a home and which are most important to you.
3. **Get your finances in order.** Review your credit report and be sure you have enough money to cover your downpayment and your closing costs.
4. **Don't wait to get a loan.** Talk to a lender and get prequalified for a mortgage before you start looking.
5. **Don't ask too many people for opinions.** It will drive you crazy. Select one or two people to turn to if you feel you need a second opinion.
6. **Decide when you could move.** When is your lease up? Are you allowed to sublet? How tight is the rental market in your area?
7. **Think long-term.** Are you looking for a starter house with the idea of moving up in a few years or do you hope to stay in this home longer? This decision may dictate what type of home you'll buy as well as the type of mortgage terms that suit you best.
8. **Don't let yourself be "house poor".** If you max yourself out to buy the biggest home you can afford, you'll have no money left for maintenance or decoration or to save money for other financial goals.
9. **Don't be naïve.** Insist on a home inspection and, if possible, get a warranty from the seller to cover defects within one year.
10. **Get help.** Consider hiring a REALTOR® as a buyer's representative. Unlike a listing agent, whose first duty is to the seller, a buyer's representative is working only for you. And often, buyer's reps are paid out of the seller's commission payment.

10 Things to Take the Trauma Out of Homebuying

1. Find a real estate professional who's simpatico. Homebuying is not only a big financial commitment, but also an emotional one. It's critical that the practitioner you choose is both skilled and a good fit with your personality.
2. Remember, there's no "right" time to buy, any more than there's a right time to sell. If you find a home now, don't try to second-guess the interest rates or the housing market by waiting. Changes don't usually occur fast enough to make that much difference in price, and a good home won't stay on the market long.
3. Don't ask for too many opinions. It's natural to want reassurance for such a big decision, but too many ideas will make it much harder to make a decision.
4. Accept that no house is ever perfect. Focus in on the things that are most important to you and let the minor ones go.
5. Don't try to be a killer negotiator. Negotiation is definitely a part of the real estate process, but trying to "win" by getting an extra-low price may lose you the home you love.
6. Remember your home doesn't exist in a vacuum. Don't get so caught up in the physical aspects of the house itself—room size, kitchen—that you forget such issues as amenities, noise level, etc., that have a big impact on what it's like to live in your new home.
7. Don't wait until you've found a home and made an offer to get approved for a mortgage, investigate insurance availability, and consider a schedule for moving. Presenting an offer contingent on a lot of unresolved issues will make your bid much less attractive to sellers.
8. Factor in maintenance and repair costs in your post-homebuying budget. Even if you buy a new home, there will be some costs. Don't leave yourself short and let your home deteriorate.
9. Accept that a little buyer's remorse is inevitable and will probably pass. Buying a home, especially for the first time, is a big commitment, but it also yields big benefits.
10. Choose a home first because you love it; then think about appreciation. While U.S. homes have appreciated an average of 5.4 percent annually from 1998 to 2002, a home's most important role is as a comfortable, safe place to live.

How High Tech Is Your Home?

If the latest technology or entertainment options are important in your new home, add the following questions to your buyer's checklist.

1. Are there enough jacks in every room for cable TV and high-speed Internet hookups?
2. Are there enough telephone extensions or jacks?
3. Is the home prewired for a home theater or multi-room audio and video?
4. Does the home have a local area network for linking computers?
5. Does the home already have wiring for DSL or other high-speed Internet connection?
6. Does the home have multizoning heating and cooling controls with programmable thermostats?
7. Does the home have multi-room lighting controls, window-covering controls, or other home automation features?
8. Is the home wired with multi-purpose in-wall wiring that allows for reconfigurations to update services as technology changes?

Visit the Consumer Electronics Association (www.ce.org/techhomerating) for a complete Tech Home™ Rating Checklist.

Hidden Home Defects to Watch For

No home is flawless, but certain physical problems can be expensive. Watch for:

1. **Water leaks.** Look for stains on ceilings and near the baseboards, especially in basements or attics.
2. **Shifting foundations.** Look for large cracks along the home's foundation.
3. **Drainage.** Look for standing water, either around the foundation of the home or in the yard.
4. **Termites.** Look for weakened or grooved wood, especially near ground level.
5. **Worn roofs.** Look for broken or missing copings and buckled shingles as well as water spots on ceilings.
6. **Inadequate wiring.** Look for antiquated fuse boxes, extension cords (indicating insufficient outlets), and outlets without a place to plug in the grounding prong.
7. **Plumbing problems.** Very low water pressure, banging in pipes.

10 Questions to Ask a Home Inspector

1. What are your qualifications? Are you a member of the American Association of Home Inspectors?
2. Do you have a current license? Inspectors are not required to be licensed in every state.
3. How many inspections of properties such as this do you do each year?
4. Do you have a list of past clients I can contact?
5. Do you carry professional errors and omission insurance? May I have a copy of the policy?
6. Do you provide any guarantees of your work?
7. What specifically will the inspection cover?
8. What type of report will I receive after the inspection?
9. How long will the inspection take and how long will it take to receive the report?
10. How much will the inspection cost?

Portions adapted from Real Estate Checklists and Systems and used with permission (www.realestatechecklists.com).

What Your Home Inspection Should Cover

- Siding: Look for dents or buckling
- Foundations: Look for cracks or water seepage
- Exterior Brick: Look for cracked bricks or mortar pulling away from bricks
- Insulation: Look for condition, adequate rating for climate
- Doors and Windows: Look for loose or tight fits, condition of locks, condition of weatherstripping
- Roof: Look for age, conditions of flashing, pooling water, buckled shingles, or loose gutters and downspouts
- Ceilings, walls, and moldings: Look for loose pieces, drywall that is pulling away
- Porch/Deck: Loose railings or step, rot
- Electrical: Look for condition of fuse box/circuit breakers, number of outlets in each room
- Plumbing: Look for poor water pressure, banging pipes, rust spots or corrosion that indicate leaks, sufficient insulation
- Water Heater: Look for age, size adequate for house, speed of recovery, energy rating
- Furnace/Air Conditioning: Look for age, energy rating; Furnaces are rated by annual fuel utilization efficiency; the higher the rating, the lower your fuel costs. However, other factors such as payback period and other operating costs, such as electricity to operate motors.
- Garage: Look for exterior in good repair; condition of floor—cracks, stains, etc.; condition of door mechanism
- Basement: Look for water leakage, musty smell
- Attic: Look for adequate ventilation, water leaks from roof
- Septic Tanks (if applicable): Adequate absorption field capacity for the percolation rate in your area and the size of your family
- Driveways/Sidewalks: Look for cracks, heaving pavement, crumbling near edges, stains

5 Property Tax Questions You Need to Ask

1. What is the assessed value of the property? Note that assessed value is generally less than market value. Ask to see a recent copy of the seller's tax bill to help you determine this information.
2. How often are properties reassessed and when was the last reassessment done? Generally taxes jump most significantly when a property is reassessed.
3. Will the sale of the property trigger a tax increase? Often the assessed value of the property may increase based on the amount you pay for the property. And in some areas, such as California, taxes may be frozen until resale.
4. Is the amount of taxes paid comparable to other properties in the area? If not, it might be possible to appeal the tax assessment and lower the rate?
5. Does the current tax bill reflect any special exemptions that you might not qualify for? For example, many tax districts offer reductions to those 65 or over.

10 Questions to Ask Your Condo Board

Before you buy, contact the condo board with the following questions. In the process, you'll learn how responsive—and organized—its members are.

1. What percentage of units is owner-occupied? What percentage is tenant-occupied? Generally, the higher the percentage of owner-occupied units, the more marketable the units will be at resale.
2. What covenants, bylaws, and restrictions govern the property? What grandfather clauses are in place? You may find, for instance, that those who buy a property after a certain date can't rent out their units, but buyers who bought earlier can. Ask for a copy of the bylaws to determine if you can live within them. And have an attorney review property docs, including the master deed, for you.
3. How much does the association keep in reserve? How is that money being invested?
4. Are association assessments keeping pace with the annual rate of inflation? Smart boards raise assessments a certain percentage each year to build reserves to fund future repairs. To determine if the assessment is reasonable, compare the rate to others in the area.
5. What does and doesn't the assessment cover—common area maintenance, recreational facilities, trash collection, snow removal?
6. What special assessments have been mandated in the past five years? How much was each owner responsible for? Some special assessments are unavoidable. But repeated, expensive assessments could be a red flag about the condition of the building or the board's fiscal policy.
7. How much turnover occurs in the building?
8. Is the project in litigation? If the builders or homeowners are involved in a lawsuit, reserves can be depleted quickly.
9. Is the developer reputable? Find out what other projects the developer has built and visit one if you can. Ask residents about their perceptions. Request an engineer's report for developments that have been reconverted from other uses to determine what shape the building is in. If the roof, windows, and bricks aren't in good repair, they become your problem once you buy.
10. Are multiple associations involved in the property? In very large developments, umbrella associations, as well as the smaller association into which you're buying, may require separate assessments.

10 Questions to Ask Your Lender

Be sure you find a loan that fits your needs with these comprehensive questions.

1. What are the most popular mortgage loans you offer?
2. Which type of mortgage plan do you think would be best for us? Why?
3. Are your rates, terms, fees, and closing costs negotiable?
4. Will I have to buy private mortgage insurance? If so how much will it cost and how long will it be required? NOTE: Private mortgage insurance usually is required if you make less than a 20 percent downpayment, but most lenders will let you discontinue the policy when you've acquired a certain amount of equity by paying down the loan.
5. Who will service the loan? Your bank or another company?
6. What escrow requirements do you have?
7. How long is your loan lock-in period (the time that the quoted interest rate will be honored)? Will I be able to obtain a lower rate if they drop during this period?
8. How long will the loan approval process take?
9. How long will it take to close the loan?
10. Are there any charges or penalties for prepaying the loan?

*Used with permission from Real Estate Checklists & Systems
(<http://www.realestatechecklists.com>).*

10 Things a Lender Needs From You

1. W-2 forms or business tax return forms if you're self-employed for the last two or three years for every person signing the loan.
2. Copies of one or more months of pay stubs from every person signing the loan.
3. Copies of two to four months of bank or credit union statements for both checking and savings accounts.
4. Copies of personal tax forms for the last two to three years.
5. Copies of brokerage account statements for two to four months, as well as a list of any other major assets of value, e.g., a boat, RV, or stocks or bonds not held in a brokerage account.
6. Copies of your most recent 401(k) or other retirement account statement.
7. Documentation to verify additional income, such as child support, pension, etc.
8. Account numbers of all your credit cards and the amounts of any outstanding balances.
9. Lender, loan number, and amount owed on other installment loans—student loans, car loans, etc.
10. Addresses where you lived for the last five to seven years, with names of landlords, if appropriate.

6 Creative Ways to Afford a Home

If your income and savings are making homebuying a challenge, consider these options.

1. Investigate local, state, and national downpayment assistance programs. These programs give loans or grants to cover all or part of your required downpayment. National programs include the Nehemiah program (<http://www.getdownpayment.com>) and the American Dream Downpayment Fund from the U.S. Department of Housing and Urban Development (<http://www.hud.gov>).
2. Get the seller to provide financing. In some cases, sellers may be willing to finance all or part of the purchase price of the home and let you repay them gradually, just as you do a mortgage.
3. Consider a shared-appreciation, or shared equity, arrangement. Under this arrangement, your family, friends, or even a third-party may buy a portion of the home and thus share in any appreciation when the home is sold. The owner/occupant usually pays the mortgage, property taxes, and all maintenance costs, but all investors' names are usually on the mortgage. There are companies that can help you find such an investor if your family can't participate.
4. Get help from your family. Perhaps a family member will loan you money for the downpayment and/or act as a cosigner for the mortgage. Lenders often like to have a cosigner if you have little credit history.
5. Lease with the option to buy. Renting the home for a year or more will give you the chance to save more toward your downpayment. And in many cases, owners will apply some of the rental amount toward the purchase price. You usually have to pay a small, nonrefundable option fee to the owner.
6. See if you can qualify for a short-term second mortgage to give you the money to make a higher downpayment. This may be possible if you have a good income and little other debt.

Choices That Will Affect Your Loan

- **Mortgage term.** Mortgages are generally available at 15-, 20-, or 30-year terms. The longer the term, the lower the monthly payment if the same amount is borrowed. However, you pay more interest overall if you borrow for a longer term.
- **Fixed or adjustable interest rates.** A fixed rate allows you to lock in a low rate for as long as you hold the mortgage and is usually a good choice if interest rates are low. An adjustable-rate mortgage (ARM) is designed so that interest rates will rise as interest rates increase; however they usually offer a lower rate in the first years of the mortgage. ARMs also usually have a limit as to how much the interest rate can be increased and how frequently they can be raised. ARMs are a good choice when interest rates are high or when you expect your income to grow significantly in the coming years.
- **Balloon mortgages.** Balloon mortgages offer very low interest rates for a short period of time—often three to seven years. Payments usually cover only the interest, so the principal owed is not reduced. However, this type of loan may be a good choice if you think you will sell your home in a few years.
- **Government-backed loans.** Government-backed loans, sponsored by agencies such as the Federal Housing Administration (www.fha.gov) or the U.S. Department of Veterans Affairs (www.va.gov), offer special terms, including lower downpayments or reduced interest rates—to qualified buyers.

Slight variations in interest rates, loan amounts, and terms can significantly affect your monthly payment. For help in determining how much your monthly payment will be for various loan amounts, use Fannie Mae's [online mortgage calculators](http://www.fanniemae.com/homebuyers/calculators/index.jhtml?p=Resources&s=Calculators) at <http://www.fanniemae.com/homebuyers/calculators/index.jhtml?p=Resources&s=Calculators>

5 Things to Understand About Homeowners Insurance

1. **Look for exclusions to coverage.** For example, most insurance policies do not cover flood or earthquake damage as a standard item. These coverages must be bought separately.
2. **Look for dollar limitations on claims.** Even if you are covered for a risk, there may a limit on how much the insurer will pay. For example, many policies limit the amount paid for stolen jewelry unless items are insured separately.
3. **Understand replacement cost.** If your home is destroyed you'll receive money to replace it only to the maximum of your coverage, so be sure your insurance is sufficient. This means that if your home is insured for \$150,000 and it costs \$180,000 to replace it, you'll only receive \$150,000.
4. **Understand actual cash value.** If you choose not to replace your home when it's destroyed, you'll receive replacement cost, less depreciation. This is called actual cash value.
5. **Understand liability.** Generally your homeowners insurance covers you for accidents that happen to other people on your property, including medical care, court costs, and awards by the court. However, there is usually an upper limit to the amount of coverage provided. Be sure that it's sufficient if you have significant assets.

10 Ways to Lower Your Homeowners Insurance Costs

1. **Raise your deductible.** If you can afford to pay more toward a loss that occurs, your premiums will be lower.
2. **Buy your homeowners and auto policies from the same company.** You'll usually qualify for a discount. But make sure that the savings really yields the lowest price.
3. **Make your home less susceptible to damage.** Keep roofs and drains in good repair. Retrofit your house to protect against natural disasters common to your area.
4. **Keep your home safer.** Install smoke detectors, burglar alarms, and dead-bolt locks. All of these will usually qualify for a discount.
5. **Be sure you insure your house for the correct amount.** Remember, you're covering replacement cost, not market value.
6. **Ask about other discounts.** For example, retirees who are home more than working people may qualify for a discount on theft insurance.
7. **Stay with the same insurer.** Especially in today's tight insurance market, your current vendor is more likely to give you a good price.
8. **See if you belong to any groups**—associations, alumni groups—that offer lower insurance rates.
9. **Review your policy limits and the value of your home and possessions annually.** Some items depreciate and may not need as much coverage.
10. **See if there's a government-backed insurance plan.** In some high-risk areas, such as the coasts, federal or state governments may back plans to lower rates. Ask your agent.

5 Things to Understand About Title Insurance

1. It's a one-time cost usually based on the price of the property.
2. There are both lender title policies, which protect the lender, and owner title policies, which protect you. The lender will probably require a lender policy.
3. Discounts on premiums are sometimes available if the home has been bought within only a few years since not as much work is required to check the title. Ask the title company if this discount is available.
4. Owner's Title Insurance will protect you against the following hidden risks (often not found during the bank attorney title search).
 - a. Forgery
 - b. Fraud (misrepresentation) in connection with the execution of documents.
 - c. Undue influence (under pressure) on a grantor (Seller) or executor (of a will)
 - d. False impersonation by those purporting to owners of the property
 - e. Incorrect representation of marital status of a grantor (Seller)
 - f. In some cases, undisclosed or missing heirs
 - g. In some cases, Wills not properly probated
 - h. In some cases, mistaken interpretation of wills and trusts
 - i. Mental incompetence of grantors
 - j. Conveyance of a minor
 - k. In some cases, birth of heirs subsequent to the date of a will
 - l. In some cases, inadequate surveys
 - m. In some cases, incorrect legal descriptions
 - n. Non-delivery of deeds
 - o. Unsatisfied claims not shown on the record
 - p. Deeds executed under false powers of attorney
 - q. In some cases, confusion due to similar or identical names
 - r. In some cases, dower or courtesy rights of ex-spouses of former owners
 - s. Incorrect indexing at Registries of Deeds
 - t. Clerical errors in recording legal documents
 - u. Delivery of deeds after the death of a grantor

What Not to Overlook on a Final Walk-through

Be sure that:

- Repairs you've requested have been made. Obtain copies of paid bills and any related warranties.
- All items that were included in the sale price—draperies, lighting fixtures—are still there.
- Screens and storm windows are in place or stored.
- All appliances are operating.
- Intercom, doorbell, and alarm are operational.
- Hot water heater is working.
- HVAC is working.
- No plants or shrubs have been removed from the yard.
- Garage door opener and other remotes are available.
- Instruction books and warranties on appliances and fixtures are there.
- All personal items of the sellers and all debris have been removed.

Common Closing Costs for Buyers

The lender must disclose a good faith estimate of all settlement costs. A check to cover your closing costs will probably have to be a cashier's check. The title company or other entity conducting the closing will tell you the required amount for:

- Downpayment
- Loan origination fees
- Points, or loan discount fees, you pay to receive a lower interest rate
- Appraisal fee
- Credit report
- Private mortgage insurance premium
- Insurance escrow for homeowners insurance, if being paid as part of the mortgage
- Property tax escrow, if being paid as part of the mortgage. Lenders keep funds for taxes and insurance in escrow accounts as they are paid with the mortgage, then pay the insurance or taxes for you.
- Deed recording fees
- Title insurance policy premiums
- Survey
- Inspection fees—building inspection, termites, etc.
- Notary fees
- Prorations for your share of costs, such as utility bills and property taxes

A Note About Prorations: Because such costs are usually paid on either a monthly or yearly basis, you might have to pay a bill for services used by the sellers before they moved. Proration is a way for the sellers to pay you back or for you to pay them for bills they may have paid in advance. For example, the gas company usually sends a bill each month for the gas used during the previous month. But assume you buy the home on the 6th of the month. You would owe the gas company for only the days from the 6th to the end for the month. The seller would owe for the first five days. The bill would be prorated for the number of days in the month, and then each person would be responsible for the days of his or her ownership.

What to Keep From Your Closing

- The Real Estate Settlement Procedures Act (RESPA) statement. This form, sometimes called a HUD 1 statement, itemizes all the costs associated with the closing. You'll need this for income tax purposes and when you sell the home.
- The Truth in Lending Statement summarizes the terms of your mortgage loan.
- The mortgage and the note (two pieces of paper) spell out the legal terms of your mortgage obligation and the agreed-upon repayment terms.
- The deed transfers ownership of the property to you.
- Affidavits swearing to various statements by either party. For example, the sellers will often sign an affidavit stating that they have not incurred any liens on the property.
- Riders are amendments to the sales contract that affect your rights. For example, if you buy a condominium, you may have a rider outline the condo association's rules and restrictions.
- Insurance policies provide a record and proof of your coverage.

Tips for Packing Like a Pro

1. Develop a master “to do” list so you won’t forget something critical.
2. Sort and get rid of things you no longer want or need. Have a garage sale, donate to a charity, or recycle.
3. Don’t throw out everything. If your inclination is to just toss it, ask yourself how frequently you use an item and how you’d feel if you no longer had it.
4. Pack like items together. Put toys with toys, kitchen utensils with kitchen utensils.
5. Decide what if anything you plan to move yourself. Precious items, such as family photos, valuable breakables, or must-haves during the move, should probably stay with you.
6. Use the right box for the item. Loose items encourage breakage.
7. Put heavy items in small boxes so they’re easier to lift. Keep weight under 50 lbs. if possible.
8. Don’t over-pack boxes and increase the chances they will break.
9. Wrap every fragile item separately and pad bottom and sides of boxes.
10. Label every box on all sides. You never know how they’ll be stacked and you don’t want to have to move other boxes aside to find out what’s there.
11. Use color-coded labels to indicate which room each item should go in. Color-code a floor plan for your new house to help movers.
12. Keep your moving documents together, including phone numbers, driver’s name, and van number. Also keep your address book handy.
13. Back up your computer files before moving your computer.
14. Inspect each box and all furniture for damage as soon as it arrives.
15. Remember, most movers won’t take plants.

Understanding Agency

It's important to understand what legal responsibilities your real estate salesperson has to you and to other parties in the transactions. Ask your salesperson to explain what type of agency relationship you have with him or her and with the brokerage company.

1. **Seller's representative** (also known as a listing agent or seller's agent). A seller's agent is hired by and represents the seller. All fiduciary duties are owed to the seller. The agency relationship usually is created by a listing contract.
2. **Subagent**. A subagent owes the same fiduciary duties to the agent's principal as the agent does. Subagency usually arises when a cooperating sales associate from another brokerage, who is not representing the buyer as a buyer's representative or operating in a nonagency relationship, shows property to a buyer. In such a case, the subagent works *with* the buyer as a customer but owes fiduciary duties to the listing broker and the seller. Although a subagent cannot assist the buyer in any way that would be detrimental to the seller, a buyer-customer can expect to be treated honestly by the subagent. It is important that subagents fully explain their duties to buyers.
3. **Buyer's representative** (also known as a buyer's agent). A real estate licensee who is hired by prospective buyers to represent them in a real estate transaction. The buyer's rep works in the buyer's best interest throughout the transaction and owes fiduciary duties to the buyer. The buyer can pay the licensee directly through a negotiated fee, or the buyer's rep may be paid by the seller or by a commission split with the listing broker.
4. **Disclosed dual agent**. Dual agency is a relationship in which the brokerage firm represents both the buyer and the seller in the same real estate transaction. Dual agency relationships do not carry with them all of the traditional fiduciary duties to the clients. Instead, dual agents owe limited fiduciary duties. Because of the potential for conflicts of interest in a dual-agency relationship, it's vital that all parties give their informed consent. In many states, this consent must be in writing. Disclosed dual agency, in which both the buyer and the seller are told that the agent is representing both of them, is legal in most states.
5. **Designated agent** (also called, among other things, appointed agency). This is a brokerage practice that allows the managing broker to designate which licensees in the brokerage will act as an agent of the seller and which will act as an agent of the buyer. Designated agency avoids the problem of creating a dual-agency relationship for licensees at the brokerage. The designated agents give their clients full representation, with all of the attendant fiduciary duties. The broker still has the responsibility of supervising both groups of licensees.
6. **Nonagency relationship** (called, among other things, a transaction broker or facilitator). Some states permit a real estate licensee to have a type of nonagency relationship with a consumer. These relationships vary considerably from state to state, both as to the duties owed to the consumer and the name used to describe them. Very generally, the duties owed to the consumer in a nonagency relationship are less than the complete, traditional fiduciary duties of an agency relationship.

Web Site Resources for Consumers

Credit Union Consumer Facts,

http://www.cuna.org/data/consumer/advice/retire_home/hometoc.html

EnergyGuide.com

Provides an easy way to assess energy use and get quick tips on saving energy.

Environmental Protection Agency, www.epa.gov

A one-stop shop for advice on testing for and mitigating pollutants, from lead paint to radon to mold.

Equifax, www.equifax.com

A source of credit reports.

Experian (formerly TRW), www.experian.com

A source of credit reports.

Federal Citizen Information Center,

<http://www.pueblo.gsa.gov/results.tpl?id1=17&startat=1&--woSECTIONSdatarg=17&--SECTIONSword=ww>

Offers a list of consumer articles about home sales, financing, and maintenance.

Ginnie Mae, <http://www.ginniemae.gov>

Provides advice to buyers on affordability and homeownership, including calculators.

U.S. Department of Housing and Urban Affairs, <http://www.hud.gov/buying/index.cfm>

Offers advice to buyers on finance, fair housing, and more.

ImproveNet, www.improvenet.com

Provides links to contractors and architects for remodeling projects for buyers and repair services for sellers. For a small charge, buyers can use the site's Estimators to determine how much renovating a property they're considering would cost.

Moving.com

Helps buyers and sellers with packing tips and timetables, online mover links, and places to store belongings so that homes look less cluttered.

REALTOR.com

Offers consumer information for buyers and sellers as well as home listings and links to service providers.

Real Estate Buyer's Agent Council (REBAC), <http://www.rebac.net/hbk.html>

Offers a homebuyer's kit with useful information and checklists.

Trans Union Corporation, www.transunion.com

A source of credit reports.