



A HOME BUYER'S GUIDE

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GETTING STARTED

REASONS FOR BUYING A HOME

If you are like most first-time home buyers, you've probably listened to friends', family's and coworkers' advice, many of whom are encouraging you to buy a home. However, you may still wonder if buying a home is the right thing to do. Relax. Having reservations is normal. The more you know about why you should buy a home, the less scary the entire process will appear to you. Here are eight good reasons why you should buy a home:

PRIDE OF OWNERSHIP

Pride of ownership is the number one reason why people yearn to own their home. It means you can paint the walls any color you desire, turn up the volume on your CD player, attach permanent fixtures and decorate your home according to your own taste. Home ownership gives you and your family a sense of stability and security. It's making an investment in your future.

APPRECIATION

Although real estate moves in cycles, sometimes up, sometimes down, over the years, real estate has consistently appreciated. The Office of Federal Housing Enterprise Oversight tracks the movements of single family home values across the country. Its House Price Index breaks down the changes by region and metropolitan area. Many people view their home investment as a hedge against inflation.

MORTGAGE INTEREST DEDUCTIONS

Home ownership is a superb tax shelter and our tax rates favor homeowners. As long as your mortgage balance is smaller than the price of your home, mortgage interest is fully deductible on your tax return. Interest is the largest component of your mortgage payment.

PROPERTY TAX DEDUCTIONS

IRS Publication 530 contains information for first-time home buyers. Real estate property taxes paid for a first home and a vacation home are fully deductible for income tax purposes. In California, the passage of Proposition 13 in 1978 established the amount of assessed value after property changes hands and limited property tax increases to 2% per year or the rate of inflation, whichever is less.

CAPITAL GAIN EXCLUSION

As long as you have lived in your home for two of the past five years, you can exclude up to \$250,000 for an individual or \$500,000 for a married couple of profit from capital gains. You do not have to buy a replacement home or move up. There is no age restriction, and the "over-55" rule does not apply. You can exclude the above thresholds from taxes every 24 months, which means you could sell every two years and pocket your profit-subject to limitation-free from taxation.

PREFERENTIAL TAX TREATMENT

If you receive more profit than the allowable exclusion upon sale of your home, that profit will be considered a capital asset as long as you owned your home for more

than one year. Capital assets receive preferential tax treatment.

MORTGAGE REDUCTION BUILDS EQUITY

Each month, part of your monthly payment is applied to the principal balance of your loan, which reduces your obligation. The way amortization works, the principal portion of your principal and interest payment increases slightly every month. It is lowest on your first payment and highest on your last payment. On average, each \$100,000 of a mortgage will reduce in balance the first year by about \$500 in principal, bringing that balance at the end of your first 12 months to \$99,500.

EQUITY LOANS

Consumers who carry credit card balances cannot deduct the interest paid, which can cost as much as 18% to 22%. Equity loan interest is often much less and it is deductible. For many home owners, it makes sense to pay off this kind of debt with a home equity loan. Consumers can borrow against a home's equity for a variety of reasons such as home improvement, college, medical or starting a new business. Some state laws restrict home equity loans.

BUYING VS. RENTING

Words you will hear few real estate agents mutter: *Not everybody should own a home!* Some people aren't cut out for home ownership, for a variety of reasons. Are you one of those who should rent and not buy? Here are some ways to tell:

BAD CREDIT REPORT

Does your credit report tank? If your FICO score is below 620, you're not going to receive a good interest rate for a loan and, in fact, that kind of score could dump you into the hands of a predatory lender. Not a good sign.

If you want to buy with bad credit, you should work on fixing it before applying for a loan.

Four late payments are enough to disqualify you from obtaining a loan. You can order your credit report free online.

HIGH DEBT RATIOS

Lenders consider two ratios: front-end and back-end. The front-end is your mortgage payment, plus taxes and insurance divided by

your monthly salary. The back-end adds your monthly debt payments to your PITI payment before dividing that total figure by your salary. A 50% debt ratio is a high ratio. A high debt ratio means you may not qualify for the loan. If you should find an unscrupulous lender that is willing to fund such a loan, you may not be able to afford to feed yourself, even if you eat lint.

JOB INSTABILITY

How secure is your job? A high-rolling Sacramento buyer purchased a home in the Midtown area. His mortgage payments were \$3,500 a month, which was a lot for a 25-year-old. However, that payment was affordable while this guy was earning an annual \$120,000 salary. But when he lost his job, he also lost his home to foreclosure.

IS YOUR JOB IN JEOPARDY?

Is your company laying off? Could you be fired and, if so, how hard would it be to get another job right away? Unemployment compensation is rarely enough to cover mortgage payments.

RELOCATION

If a sudden job transfer is in your future, a little pre-planning can help make your relocation move less stressful. Because after the excitement of moving to a new city begins to fade, panic often replaces the initial exhilaration, especially when the realization hits that you might not know anything about buying a home in a new area.

MAINTENANCE ISSUES

All homes require upkeep and maintenance. Not everybody has the ability, much less the desire, to tackle home repair projects. In addition, many first-time home buyers can not afford to hire a professional to fix things

that break. Experts suggest you set aside 5% of the purchase price to cover maintenance and repairs when you buy a home.

WHEN RENTING COSTS CONSIDERABLY LESS

If your mortgage payment would be triple the amount (or more) you would pay for rent, it might not make financial sense for you to buy. For example, if it would cost you \$2,000 a month to rent what would cost you \$6,000 per month to own, does it make sense to pay \$48,000 a year more to own a home?

If you are in a 30% tax bracket, you might not come close to recouping the difference you paid. Say your deductible expenses are \$5,000 a month; 30% of that is only \$1,500, which would be your true tax savings per month. Would you spend \$6,000 to save \$1,500? For more information, please consult a tax accountant or CPA.

FINDING A DOWN PAYMENT

Home ownership in America has increased from 25% in the early 1900s to 67% at the end of that century. During all those years, many home buyers struggled to come up with a down payment. In some cases, the banks required as much as 50% down before they would lend on a mortgage.

Today, the desired down payment is typically 20%; however, few people have that much cash available to them. FHA loans, for example, require only 3.5% down. But the fact remains that the more a buyer puts down, the lower the mortgage and lower mortgage balances carry low mortgage payments. That seemingly allusive 20% down payment can be found by following some simple strategies:

1) SAVE YOUR TAX REFUND

If it's hard for you to save, you can change your withholding exemptions from 1 to zero. This will force your employer to pay more to the I.R.S. and reduce your paycheck by that

amount. For some free-spending and undisciplined individuals, this method ensures a fat income tax refund. Even a regular tax income refund, however, might be enough to help you buy a home.

2) BORROW FROM PARENTS

It's not unusual to ask your parents for money to help you buy a home. Favorable tax laws will let each parent gift a certain amount without tax consequences (check with your CPA).

If your parents won't give you the money, perhaps you could ask for an unsecured loan and pay it back at a better rate than your parents could get at the bank or in a money-market account? The rate you pay would likely be less than the prevailing rate from your own lending institution, which makes it win-win for everybody.

3) SOCK AWAY X AMOUNT PERIODICALLY

The secret to making a savings account grow is to make identical deposits at the same time every month. For example, if you are paid every two weeks and save \$200 from every paycheck, at the end of 12 months, you will have saved more than \$5,200, excluding interest.

4) ASK SELLER TO GIVE IT TO YOU

If you pay the seller's asking price, you'd be astonished at what some sellers will do for

you. Some of them will even give you the down payment as a credit or pay your closing costs or both. Check with your lender before asking for the credit because lenders have strict requirements as to how much you can receive. The Nehemiah program, for example, allows up to 6% as a credit from the seller.

5) CHECK OUT GOVERNMENT PROGRAMS

If you've served your country in the armed forces, you may qualify for a loan backed by the Veterans Administration, known as a VA loan. The government also runs a slew of down payment assistance programs for first-time home buyers. Also, check with your county to see if it offers special programs to induce home ownership in certain neighborhoods.

6) TAP YOUR RETIREMENT FUNDS

Certain retirement accounts will let you borrow from them to buy a home. Check with your CPA for current regulations. Some types of requirement accounts will let you take out the principal balance without a penalty.

HIRING AN AGENT

TOP REASONS TO HIRE A REAL ESTATE AGENT

With so much information readily available online, clients sometimes ask, "Why should we hire a real estate agent?" They wonder, and rightfully so, if they couldn't buy or sell a home through the Internet or through regular marketing and advertising channels without representation, without a real estate agent. Some do OK, many don't. So if you've wondered the same thing, here are 10 reasons why you might want to consider hiring a professional real estate agent:

1. EDUCATION & EXPERIENCE

You don't need to know everything about buying and selling real estate if you hire a real estate professional who does. Henry Ford once said that when you hire people who are smarter than you are, it proves you are smarter than they are. The trick is to find the right person. For the most part, they all cost about the same. Why not hire a person with more education and experience than you? We're all looking for more precious time in our lives, and hiring pros gives us that time.

2. AGENTS ARE BUFFERS

Agents take the spam out of your property showings and visits. If you're a buyer of new homes, your agent will whip out her sword and keep the builder's agents at bay, preventing them from biting or nipping at your heels. If you're a seller, your agent will filter all those phone calls that lead to nowhere from lookie-loos and try to induce serious buyers to immediately write an offer.

3. NEIGHBORHOOD KNOWLEDGE

Agents either possess intimate knowledge or they know where to find the industry buzz about your neighborhood. They can identify comparable sales and hand these facts to you,

in addition to pointing you in the direction where you can find more data on schools, crime or demographics. For example, you may know that a home down the street was on the market for \$350,000, but an agent will know it had upgrades and sold at \$285,000 after 65 days on the market *and* after twice falling out of escrow.

4. PRICE GUIDANCE

Contrary to what some people believe, agents do not select prices for sellers or buyers. However, an agent will help to guide clients to make the right choices for themselves. If a listing is at 7%, for example, an agent has a 7% vested interest in the sale, but the client has a 93% interest. Selling agents will ask buyers to weigh all the data supplied to them and to choose a price. Then based on market supply, demand and the conditions, the agent will devise a negotiation strategy.

5. MARKET CONDITIONS INFORMATION

Real estate agents can disclose market conditions, which will govern your selling or buying process. Many factors determine how you will proceed. Data such as the average per square foot cost of similar homes, median and average sales prices, average days

on market, and ratios of list-to-sold prices, among other criteria, will have a huge bearing on what you ultimately decide to do.

6. PROFESSIONAL NETWORKING

Real estate agents network with other professionals, many of whom provide services that you will need to buy or sell. Due to legal liability, many agents will hesitate to recommend a certain individual or company over another, but they do know which vendors have a reputation for efficiency, competency and competitive pricing. Agents can, however, give you a list of references with whom they have worked and provide background information to help you make a wise selection.

7. NEGOTIATION SKILLS

Top producing agents negotiate well because, unlike most buyers and sellers, they can remove themselves from the emotional aspects of the transaction and because they are skilled. It's part of their job description. Good agents are not messengers, delivering buyer's offers to sellers and vice versa. They are professionals who are trained to present their client's case in the best light and agree to hold client information confidential from competing interests.

8. HANDLING VOLUMES OF PAPERWORK

One-page deposit receipts were prevalent in the early 1970s. Today's purchase agreements run 10 pages or more. That does not include

the Federal and State mandated disclosures nor disclosures dictated by local custom. Most real estate files average thicknesses from one to three inches of paper. One tiny mistake or omission could land you in court or cost you thousands. In some states, lawyers handle the disclosures, thank goodness!

9. ANSWER QUESTIONS AFTER CLOSING

Even the smoothest transactions that close without complications can come back to haunt. For example, taxing authorities that collect property tax assessments, doc stamps or transfer tax can fall months behind and mix up invoices, but one call to your agent can straighten out the confusion. Many questions can pop up that were overlooked in the excitement of closing. Good agents stand by ready to assist. Worthy and honest agents don't leave you in the dust to fend for yourself.

10. DEVELOP RELATIONSHIPS FOR FUTURE BUSINESS

The basis for an agent's success and continued career in real estate is referrals. Few agents would survive if their livelihood was dependent on consistently drumming up new business. This emphasis gives agents strong incentives to make certain clients are happy and satisfied. It also means that an agent who stays in the business will be there for you when you need to hire an agent again. Many will periodically mail market updates to you to keep you informed and to stay in touch.

HOW TO WORK WITH AN AGENT

Because real estate agents can make or break your deal, you owe it yourself and to your financial future to understand how agents work. Do you know the difference between REALTORS® and real estate agents? Do you need an agent or would you be better off doing it all yourself? Which

type of real estate agency might be best for you, dual or single? Should you sign with a buyer's broker? Can you go to open houses and call other agents if an agent is e-mailing you listings? How are real estate agents paid and who pays them? What are the different types of listing agreements? Find out the answers before you start looking for an agent to represent you.

WORKING WITH AN AGENT

Can you call your agent at 9:00 at night? How about 6:00 in the morning? Can you work with more than one agent at a time? How much trouble can you get into if you sign multiple purchase agreements through multiple agents? If a listing agent shows you a home, can you call your brother-in-law to write the offer and represent you?

WHAT A REAL ESTATE AGENT CAN OR CANNOT DO FOR YOU

To understand a real estate agent's scope of duties and what an agent can and cannot do for you, look first to federal and state regulations. Here are a few of the entities that govern or affect a real estate agent's actions:

- Federal Fair Housing Act
- State Real Estate Laws
- National Association of Realtor's Code of Ethics
- Employing Broker's Guidelines
- Lawsuits

Probably the most important is the Fair Housing Act. Basically, it was designed to prevent discrimination. Fair Housing Act legislation was contained in the Civil Rights Act of 1968 and modified by the Fair Housing Amendments Act of 1988. There are seven classes protected by the Fair Housing Act. They are:

- Race
- Color
- Religion

- National Origin
- Sex
- Handicap
- Familial Status

AGENTS WORK ON COMMISSION

Very few real estate agents work on salary. Most real estate agents are paid commission. If an agent does not close a transaction, she does not get paid. Agents are not public servants and do not work for free. Do not ask an agent to work for you if you intend to cut the agent out of your deal.

SIGN A BUYER'S BROKER AGREEMENT WITH A BUYING AGENT

Expect to sign a buyer's broker agreement. It creates a relationship between you and the agent, and explains the agent's duties to you and vice versa. If you're not ready to sign a buyer's broker, do not ask that agent to show you homes. Otherwise, procuring cause may pop up.

ALWAYS ASK FOR AND SIGN AN AGENCY AGREEMENT

By law, agents are required to give buyers an Agency Disclosure.

Signing an agency disclosure is your proof of receipt. It is solely a disclosure. It is not an agreement to agency. Read it.

The best and most practiced type of agency is the single agency. This mean you are represented by your own agent who owes you a fiduciary responsibility.

DO NOT CALL THE LISTING AGENT IF YOU ARE WORKING WITH A BUYING AGENT

Listing agents work for the seller, not the buyer. If you hire the listing agent to represent you, that agent will now be working under dual agency. If listing agents show you the property, the listing agent will expect to represent you. Listing agents do not want to do the buying agent's job. Let your buyer's agent do her job.

PRACTICE OPEN HOUSE PROTOCOL

Ask your agent if it's considered proper for you to attend open houses alone. In some areas, it is frowned upon to go to open houses unescorted. If attending an Open House on your own, make it clear to the hosting agent that you have hired an agent. Announcing you are represented protects you.

Do not ask the open house host questions about the seller or the seller's motivation. Let your agent ask those questions for you.

MAKE YOUR EXPECTATIONS KNOWN

If you expect your agent to pick you up at your front door and drive you home after showing homes, tell her. Many will provide that service. If not, they will ask you to meet at the office.

Let your agent know how you want her to communicate with you and how often. Do you want phone calls, e-mails, text messages, IM's or all of the above?

Set realistic goals and a time frame to find your home. Ask your agent how you can help by supplying feedback. If you are displeased, say so.

DO NOT SIGN FORMS YOU DO NOT UNDERSTAND

Do not feel silly for asking your agent to explain a form to you. It is her job. Many forms are second nature to agents but not to you, so ask for explanations until you are satisfied you understand.

Do not sign forms titled Consent To Represent More Than One Buyer. This is never in your best interest. Find another agent if this happens. Realize agents are not lawyers and cannot interpret law.

PROCURING CAUSE

Commission disputes boil down to what is referred to in the industry as "procuring cause." The agent who ultimately caused the buyer to purchase the home and earned the commission is generally the procuring cause agent. That procuring cause agent might not be the agent who obtained the offer from the buyer, presented the offer and successfully negotiated the seller's acceptance of that offer. But it's often not the agent who simply first showed the home.

Every state Realtor association has its own guidelines that establish procuring cause, none of which are fast and hard rules. Some facts carry more weight than other facts. A buyer could sign an

exclusive buyer's broker agreement with one agent but the second agent who closes the transaction, depending on circumstances, could end up earning the commission. Procuring cause is complicated and the outcome is not always predictable.

Realize that when you speak to an agent at an open house, call an agent for information from a newspaper ad or ask an agent to show you a home, you might be opening a can of worms for yourself if you don't intend to buy a home through any of these agents. Your best bet to avoid procuring cause disputes is to be upfront with each real estate agent you interview and hire the best qualified to help you find a home. But the road that takes you there can be long and dusty. Along the way, you are likely to encounter other agents. But once you find an agent, use these tips to help your agent establish procuring cause:

Say you are working with another agent. If agents don't ask you if you're working with another agent, then promptly volunteer that information. Agents are supposed to ask you this question but sometimes they don't: they forget, are afraid to hear the answer, become distracted. Set them straight immediately.

Sign a buyer's broker agreement with your agent. Buyer's broker agreements will clearly describe the relationships, compensation and duties.

Sign an agency disclosure with your agent. Agency disclosures describe the various capacities under which an agent can operate. Since the agent doesn't know the specific capacity until a property is located, all capacities are described to you.

Do not ask another agent to show you property. Your agent is eager to help you.

Part of your agent's duties is to show you homes for sale, even if those are homes that you have located yourself. Let your agent earn her commission.

Do not directly call listing agents for information. Your agent will probably get more detailed information from the listing agent than you will get, anyway. There will be no confusion if your agent calls the listing agent.

Follow Open House protocol if you go unescorted. If you attend Open Houses without your agent, inform the agent hosting the Open House you have hired an agent, Sign guest books with your agent's name next to your own. Not only will this help protect you, the open house agent won't try to corral you or request personal information.

MORTGAGE BASICS

THE ADVANTAGES OF LOAN PRE-APPROVAL

Real estate experts tell first-time home buyers that it's critical to apply for a loan before shopping for a home, and that is true; it is an essential first step. But did you know that it is far better to be pre-approved for a loan than to be pre-qualified? There are more advantages to gaining pre-approval than you would initially surmise. When the lender hands a borrower a pre-approval letter, it means the borrower can:

LOOK AT THE RIGHT HOMES:

If your real estate agent is sending you automatic e-mail listings of available homes, you can ask her to change the parameters to more tightly encompass the selection of homes that you are qualified to buy. If you're not receiving e-mails from your agent, ask her to send them to you. Most MLS systems allow an agent to send clients much of the same data that agents receive. This way, you'll save time by checking out homes you can actually afford to buy instead of falling in love with pie in the sky.

SPEND TIME EXAMINING THE RIGHT HOMES:

By decreasing the inventory of homes to those that fit your parameters, you can allot more time to thinking about all the little nuances each home has to offer. Lots of home buyers never move past the price point when sorting out their preferences, but now you can devote your energies to looking at the little things that matter to you most such as whether your SUV will pass through the overhead space in the garage or smash into the microbeam.

GAIN CONFIDENCE:

Now when you find that perfect home, nobody can take it away from you by telling you that you do not qualify to buy it. You can minimize anxiety and remove last-minute

loan surprises that could disqualify you. You'll sleep better at night knowing that the home you selected is yours. Moreover, you can tell your relatives and friends that the home you made an offer is definitely going to close and you will not "lose face" with anybody.

INCREASE NEGOTIATING POWER:

Sellers will be more likely to immediately accept your offer, even if that offer is for less than list price, because you are giving the seller peace of mind that her home is sold. She can take her home off the market and place it into pending status with confidence.

ENJOY A FASTER CLOSING PERIOD:

Because there is no window period while your loan application is processed, the lender can speed up the entire processing procedure. Appraisals can be ordered immediately. It's possible to shorten a 30-day closing to two or three weeks, which comes in handy if a seller needs to quickly move and can't decide which offer to accept. Yours will move to the front if you can accomplish the seller's need to quickly close.

Because mortgage approval is generally the longest contingency to satisfy in a purchase contract, it is to your advantage to obtain a preapproval letter as soon as you're ready to begin your search. Lenders will render a

decision based on your complete loan application, employment verification and

data from all three credit reports.

WHERE TO GET A MORTGAGE

Most home buyers finance real estate, which means almost all home buyers will need to get a real estate loan. So what are your lending choices? Where can you get a real estate loan? Which type of real estate lender is best? Unfortunately, there is no pat answer because the best choice for you depends on your personal situation, the type of property you want to buy and how the lender's rates compare within the lending community. Here are some quick facts to consider before choosing where to get your mortgage:

MORTGAGE BROKERS

More than half of all the real estate loans made in the United States originate from mortgage brokers. A mortgage broker is a middle-person who brings together lenders and borrowers. Mortgage brokers each work with different lenders, sometimes 200 or more. It's important to ask about the variety of products offered as this will vary from broker to broker. Your choices are dependent on the broker's number of working relationships.

- Fees are paid by the buyer or lender or both.
- Loans at "par" mean the buyer is not paying a fee.
- Yield-spread premiums (YSPs) are typically disclosed at closing and paid by the lender.
- Mortgage brokers can also operate as "up-front" mortgage brokers, meaning they will negotiate a fee directly with the buyer in exchange for shopping for the lowest (wholesale) interest rate & fees.

MORTGAGE BANKERS

Mortgage bankers, as you may have guessed, work for a bank. They may represent more than one bank but the loans they make are bank loans, funded by the bank.

- Fees are generally not negotiable and are set by bank policy.
- Loan products are limited to those the bank offers.
- The banker may not be licensed.

COMMERCIAL BANKS

Citigroup, Bank of America, and Wells Fargo are good examples of well-known commercial banks. Commercial banks offer a wide variety of services. In fact, you probably have a bank like this in your neighborhood.

Primary source of business is *not* making mortgage loans.

Bank rates are competitive.

Your bank may offer a discount or incentive on your loan if you maintain a checking or savings account at that institution.

SAVINGS & LOAN ASSOCIATIONS

Savings and loans accept deposits from customers into savings / money market accounts and pay interest on those accounts. To prevent a relapse like the S&L crisis in the 1980s, President Bush in 1989 signed the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). Many savings and loans are now regulated by the

Department of U. S. Treasury, Office of Thrift Supervision.

Primary source of business is making real estate loans.

Savings and loans do not make business or commercial loans but lend for construction, purchase or home improvement purposes.

The process for obtaining a mortgage is a bit easier than going to a commercial bank.

CREDIT UNIONS

These institutions are regularly under attack by lending competitors because credit unions do not pay federal taxes and enjoy certain taxable advantages that other lending institutions do not. They are formed by a group of individuals with a common interest such as state government and community education employees or religious groups.

Customers must meet qualifications to be eligible for membership.

Interest rates and terms are typically very attractive and competitive.

Many credit unions do not sell their mortgage loans on the secondary market.

PRIVATE INDIVIDUAL

Anybody with money in the bank can make a real estate loan to you as long as they comply

with federal and state regulations regarding such items as interest rates, fees and charges, and provide legally required disclosures.

The seller can carry back common financing instruments such as a mortgage, trust deed or land contract.

No appraisal or title policy may be required, but you should still obtain an appraisal and title protection.

Owner financing works best on properties that are free and clear because an existing loan will most likely contain an alienation clause.

STOCK BROKERAGES & ONLINE LENDERS

You might be astonished to learn that the company handling your IRAs or mutual funds or online savings also makes mortgage loans. A few easily recognizable names are HFC Home Loans, INGDirect, Charles Schwab, and Ditech.

If you need to shake hands with your loan officer in person, an online lender might not be for you.

Internet lenders seem to work best for sophisticated borrowers with great FICO scores who know exactly what they want.

Contact only reputable and known companies with secure sites, and stay away from fly-by-night operators.

MORTGAGE LOAN TYPES

There is an amazing array of mortgage loan types available ~ as the saying goes: more mortgage loan types than you can shake a stick at!

POPULAR TYPES OF MORTGAGE LOAN PROGRAMS

Fixed-Rate Mortgage Types: This is the granddaddy of them all. Now you can choose from 10-year, 15-year, 20-year, 30-year, 40-

year and even 50-year fixed-rate mortgages, all of which are completely amortized.

FHA Loans: FHA mortgage loan types are insured by the government through mortgage insurance that is funded into the loan. First-time home buyers are ideal candidates for an FHA loan because the down payment requirements are minimal and FICO scores do not matter.

VA Loans: This type of government loan is available to veterans who have served in the U.S. Armed Services and, in certain cases, to spouses of deceased veterans. The requirements vary depending on the year of service and whether the discharge was honorable or dishonorable. The main benefit to a VA loan is the borrower does not need a down payment. The loan is guaranteed by the Department of Veteran Affairs, but funded by a conventional lender.

Interest-Only Mortgage Types: Calling a mortgage loan type an "interest-only mortgage" is a bit misleading because these loans are not really interest only, meaning the borrower pays only interest on the loan. Interest-only loans contain an option to make an interest-only payment. The option is available only for a certain period of time. However, some junior mortgages are indeed interest only and require a balloon payment, consisting of the original loan balance at maturity.

HYBRID TYPES OF MORTGAGE LOANS

Option ARM Mortgage Types: Option ARM loans are complicated. They are adjustable-rate mortgages, meaning the interest rate fluctuates periodically. Like the name implies, borrowers can choose from a variety of payment options and index rates. negative amortization.

Combo / Piggyback Mortgage Loan Types: This type of mortgage financing consists of two loans: a first mortgage and a second mortgage. The mortgages can be adjustable-rate mortgages or fixed-rate or a combination of the two. Borrowers take out two loans when the down payment is less than 20% to avoid paying private mortgage insurance.

Adjustable-Rate Mortgage Types: Adjustable-rate mortgages (ARMs) come in many flavors, colors and sizes. The interest rate fluctuates. It can move up or down monthly, semi-annually, annually or remain fixed for a period of time before it adjusts.

Mortgage Buydowns: Borrowers who want to pay a lower interest rate initially often opt for mortgage buydowns. The interest rate is reduced because fees are paid to lower the rate, which is why it's called a buydown. Buyers, sellers or lenders can buy down the interest rate for the borrower.

SPECIALTY MORTGAGE LOAN TYPES

Streamlined-K Mortgage Loans: Like the 203K loan program, FHA has another program that provides funds to a borrower to fix-up a home by rolling the funds into one loan. The dollar limits for repair work are lower on a Streamlined-K loan, but it requires less paperwork and is easier to obtain than a 203K.

Bridge / Swing Loans: These types of mortgage loans are used when a seller has put a home on the market ~ but it has not yet sold ~ and the seller wants to borrow equity to buy another home. The seller's existing home is used as security for a bridge (also called swing) loan.

Equity Mortgage Loan Types: Equity loans are second in position and junior to the existing first mortgage. Borrowers take out equity loans to receive cash. The loans can be

adjustable, fixed or a line of credit from which the borrower can draw funds as needed.

Reverse Mortgages: Reverse mortgage are available to any person over the age of 62 who has enough equity. Instead of making

monthly payments to the lender, the lender makes monthly payments to the borrower for as long as the borrower resides in the home. The interest rate can be fixed or adjustable.

BUYING A HOME

FIRST TIME HOME BUYER

It's not uncommon for a first-time home buyer to say, "Gosh, just last week I called about buying a home and now I'm in escrow! How did this happen so fast?" The answer is it didn't. First-time home buyers start the search long before most even realizes it.

BENEFITS FOR A FIRST-TIME HOME BUYER

You should buy a home. That's what you've been hearing from friends and family, right? So, by now you have likely already weighed the benefits and decided that home ownership was the best decision for you. That's a major hurdle now passed. You are focused and certain... Great!

DEFINING SEARCH PARAMETERS FOR A FIRST-TIME HOME BUYER

Almost 80% of all home searches today begin on the Internet. With just a few clicks of the mouse, home buyers can search through hundreds of online listings, view virtual tours, and sort through dozens of photographs and aerial shots of neighborhoods and homes. You've probably defined your goals and have a pretty good idea of the type of home and neighborhood you want. By the time you reach your real estate agent's office, you are halfway to home ownership.

HOW LONG SHOULD IT TAKE TO BUY YOUR FIRST HOME?

Good real estate agents will listen to your wants and needs and arrange to show only those homes that fit your particular parameters. Your agent should preview homes before showing them to you as well.

HOW MANY HOMES WILL A HOME BUYER SEE?

Studies show that your memory dramatically improves after consumption of carbs and slows upon consuming sugar. So, lay off the soft drinks and have a hearty meal of carbs before venturing out to tour homes. The average number of homes that a buy should view in one day is seven. Any more than that, and the brain is on overload. Therefore, don't expect to see 20 or 30 homes; although it's physically possible to do so, you probably will not remember specific details about any of them.

HOW A FIRST-TIME HOME BUYER CAN RATE INVENTORY

- Bring a digital camera and begin each series of photos with a close-up of the house number to identify where each group of home photos start and end.
- Take copious notes of unusual features, colors and design elements.
- Pay attention to the home's surroundings. What is next door? Do 2-story homes tower over your single story?
- Do you like the location? Is it near a park or a power plant?

- Immediately after leaving, rate each home on a scale of 1 to 10, with 10 being the highest.

VIEW TOP CHOICES A SECOND TIME BEFORE BUYING THAT FIRST HOME

After touring homes for a few days, you will probably instinctively know which one or two homes you would like to buy. Ask to see

them again. You will see them with different eyes and notice elements that were overlooked the first go-around.

At this point, your agent should call the listing agents to find out more about the sellers' motivation and to double-check that an offer hasn't come in, making sure these homes are still available to purchase.

OLD VS. NEW

It used to be that new homes cost more than older homes, but that's not true across the board anymore. As land costs increase, the size of new home lots have shrunk. Another reason today's construction is cheaper is because it's less expensive to use 2 x 4 pine framing or engineered wood over 2 x 6 redwood and to use drywall instead of plaster. Buyers who look at older homes in desirable neighborhoods will find, on average, larger lot sizes, and the homes will cost more than entry-level new homes being developed in new subdivisions.

Here are advantages and disadvantages to consider when determining whether you should buy a newer home or an older home:

ADVANTAGES TO BUYING AN OLDER HOME

Old world construction. Older homes have stood for decades, some centuries, and weathered many storms. Some were built by hand by genuine craftsman, with meticulous attention to detail.

Larger yard. Years ago, when land was cheaper, builders built on larger lot sizes, leaving room to accommodate garages on alleys.

More character. Craftsman bungalows originated in California in the 1890s, but now they're ubiquitous across the U.S. Other popular styles are Victorians, Greek Revivals, Tudors or Colonials. Interesting architectural features are abundant in these homes such as arches, hand-carved decorative appointments, stained-glass windows.

Longer-term neighbors. Some older homes are passed down through generations. Many neighbors know each other.

Established neighborhood. Zoning changes are unlikely to occur in older areas. Hooters restaurants don't fare well in residential.

Mature trees and vegetation. It's not uncommon to see 100-year trees providing canopies in yards and boulevards.

Closer to downtown entertainment and restaurants. Not only do older areas tend to be located closer to downtown areas, but often residents can walk to local coffeehouses and antique stores.

DRAWBACKS TO BUYING AN OLDER HOME

More maintenance. If it were a "perfect" house, everything would fall apart at the same time. But things tend to go wrong

periodically, and there's always something to fix. Chimneys and stone foundations require tuck pointing. Floors may slope.

Expensive to replace wiring and plumbing.

If a home was built before sewer systems, the cesspool might overflow into a sewer. Tree roots break up sewer pipes. Galvanized pipes are rust-prone. Sensitive electronics require grounded wiring, and Romex can't be mixed with knob and tube.

Smaller closets, storage space, garages.

Before today's concept of "bigger is better," people had less clothing, fewer personal items to store and one car.

Might require updates. Apart from HVAC systems trendy updates involve pricey kitchen and bath remodels.

Often more expensive. Classic and vintage homes generally cost more because of the location, meaning closer to conveniences such as schools, mass transit, shopping and urban amenities.

Smaller square footage on average. With the exception of estates, many older homes are smaller in size, even though family sizes were larger when they were built.

ADVANTAGES TO BUYING A NEWER HOME

Little maintenance. New construction is meant to last for a while, so new home owners are not likely to install a new roof or replace the water heater.

Modern conveniences. Many items are standard such as built-in dishwashers, refrigerators, microwaves and wine coolers; they feature master suite baths, work-out and media rooms; wiring systems are networked.

Builder's warranty. In California, builders are required to give buyers a 10-year

warranty. The first line of defense is to buy from a reputable builder who will agree to stand behind the structure and its components.

Energy efficient. Many homes are built with solar panels that can turn back the electric meter. New appliances use less energy. Walls, ceilings and floors are insulated. Dual pane windows retain more heat in winter and keep the home cooler in summer.

Built to code. Code regulations change all the time. Consumer safety issues are continually addressed in new construction and conform to building codes.

Emotional factor of newness. Let's face it, there's nothing like owning something that's brand new, never been used, whether it's a car or a home.

Less expensive. If the new home is not custom, it's likely to cost much less per square foot than an older home in the city.

Greater square footage, on average. It's typical to see two bedroom homes with 1,000 square feet sell for the same as a two-story, 2,500 square foot home in the suburbs. When builders can't build out, they build up.

DRAWBACKS TO BUYING A NEWER HOME

Tract homes have similar floor plans. Some say tract homes are identical to each other; they have no individuality. Others prefer conforming areas. So what if your neighbor's house look just like yours, at least you know where the light switches are located.

Immature vegetation. It can take years for trees to grow. In the Natomas suburb of Sacramento, for example, many home owners can't afford to landscape the back yard. The front of these Mediterranean homes look

magnificent, but look out an upstairs' window and everybody's lawn is dirt.

Settling causes cracks in foundations, walls and door frames.

House settling. New houses settle. It happens everywhere, regardless of the type of soil.

OVER PRICED HOMES

Common knowledge dictates that if a home doesn't sell, there must be something wrong with it. That's a true statement. In a market that is moving, there is something wrong with a home that doesn't sell. But contrary to popular belief, it's not always location or condition.

The number one reason why an otherwise attractive home does not sell is price. Homes that are grossly overpriced often never sell at all. Why? Because home buyers do not make offers on them.

WHY DON'T HOME BUYERS MAKE OFFERS ON OVERPRICED LISTINGS?

They don't want to offend the seller. It goes against human nature to offer substantially less than asking price to a seller. It's insulting to the seller and embarrassing for the buyer.

Buyers erroneously believe that the seller knows the home is overpriced. They believe that if a seller would be willing to sell for less, the seller would simply lower her price.

Buyers also assume that the seller must have turned down low-ball offers from other buyers because surely someone, somewhere along the line, had offered a reasonable price to the seller. But many times, there are no offers at all.

HOW DO YOU FIND AN OVERPRICED LISTING?

The easiest way is to ask your Realtor about the average days on market (DOM) for your area. Multiple listing systems are designed so it's fairly easy to compute the DOM. Then ask your Realtor to sort through the listings and give you a print-out of every home that has been on the market longer than the average DOM.

If your Realtor is a neighborhood specialist, it is likely they have toured these homes and has intimate knowledge of condition and layout of these homes. Ask her to share this information with you. You can also ask your Realtor which of the homes he or she thinks are overpriced as well. You will be amazed to learn that often agents don't tell listing agents whether their listings are overpriced because agents don't want to offend anyone either! But listing agents aren't infallible. Sometimes they make mistakes when estimating market value prices for a seller. Ultimately, however, remember that it is always the seller's responsibility to select the sales price.

WHY WOULD A SELLER LOWER THE PRICE?

A couple who bought the house you see pictured on this page at first wondered the same thing. That home sat on the market at an asking price of almost \$950,000 for three months. In a hot market seller's market, it probably could have sold for about \$800,000, but the market was softening and demand was decreasing. Moreover, the sellers had moved out of the area, leaving the home vacant. The listing agent was unaware that the home was overpriced. The sellers were motivated. Pointing out market conditions to

the seller, this couple was able to negotiate a deal to buy the home for about \$400,000 less than list price. Their contract was the only offer on the table while the sellers' clock was ticking.

To make the offer more attractive to the sellers, the buyers did not include the sale of their existing home as a contingency. They offered the seller a sizable earnest money deposit to show that they meant business. And they also showed the seller a list of homes that sold in the neighborhood at more reasonable prices.

Now, not every home that is overpriced will ultimately sell for less than market value. But many homes that are listed at unrealistic prices are owned by sellers who are motivated and who are willing to listen to reasons why they should sell at a reduced price to you. If

you find out that a seller has turned down multiple offers for less money, it might mean that it's just a matter of timing. Eventually the light bulb will go on and a seller will say yes.

There are overpriced gems hiding among the inventory of homes for sale every day. Don't just pass them by. You could be passing up an opportunity to buy your dream home.

***Interesting Side Note:** After this transaction closed and the final sales price was published, an irate buyer who had previously seen this home called the listing agent. She complained, saying if she had known the seller was willing to go that low, she would have bought the house and offered \$100,000 more. Well, why didn't she?*

BUYING A FIXER UPPER

Buying a fixer upper home can be a nightmare, punctuated by a series of unexpected disasters, or it can be a profitable whopper of a deal. The secrets lie in choosing the right fixer upper home to buy and getting the fixer checked out by a host of specialized inspectors.

- One of the nice aspects about buying a fixer upper is that the purchase is not contingent on the temperature of the real estate market ~ whether hot, cold or neutral ~ any time is a good time to buy a fixer. Especially if you buy the fixer for less than everything else around it. The advantages are obvious:
- Lower sales price - Less competition (not everybody wants a fixer upper)
- Potential for resale profit
- Gain repair knowledge, which will help you to properly maintain the home

- Personal satisfaction when the projects are completed

Remember, if you make a purchase offer at the right price, you make money the day you close. Because the time to think about selling is the day that you buy, even if you have no immediate plans to sell. It will help you to avoid many home selling mistakes on the back end if you avoid home buying mistakes on the front end.

THE IDEAL FIXER UPPER HOME

The perfect fixer upper is the home that everybody wants when fixed up but few can see past its imperfections to buy. The peeling paint, sagging ceiling or worn carpet are

correctable features that turn off many home buyers. They can't see past the disarray. Most first-time home buyers want to buy a home in pristine condition, one that is turnkey and ready to occupy.

WHAT TO LOOK FOR IN A FIXER UPPER HOME

Location: You've heard it a million times but it's true ~ location drives sale ability. Don't buy a fixer upper that is located on a busy street, next to a school or across the street from a power plant. Look at fixers in desirable neighborhoods. That doesn't mean you can't make money on a ghetto fixer, but given the choice, wouldn't you prefer a sought-after neighborhood?

Examine the surrounding homes and pay attention to how the homes are maintained. Are the lawns manicured? Do you notice deferred maintenance on the neighboring exteriors? Does the neighborhood appear conforming with mostly owner-occupied housing?

Configuration: The best type of fixer upper to buy is one that will appeal to the largest pool of buyers, which is a 3 bedroom with more than one bath. That's not to say a two bedroom isn't profitable, especially in a neighborhood of primarily 2 bedrooms, but three are better. If three bedrooms are better, four are better yet as some buyers who need a four bedroom will not consider a three bedroom, but a three-bedroom buyer will purchase a four bedroom.

Layout: If the home is chopped up with a bad layout, realize that it can be expensive or impractical to move walls. The layout should flow. Bedrooms at opposite ends of the home will turnoff buyers with young children, as will a two-story with the master upstairs and the other bedrooms downstairs. Kitchens

with more than one entrance are desirable. Some buyers do not like dining rooms serving as the central focal point of the home, from which every other room is accessed.

Condition: What's a major rehab to one home buyer is a walk in the park for another. Consider your expertise and whether you want to tackle a home that requires a major renovation to make it habitable. Minor cosmetic improvements are typically less costly and easier on your budget.

FIXER-UPPER REPAIR ESTIMATES

Easy fixes are:

- Patching walls, stripping wallpaper and painting.
- Refinishing floors, laying tile or carpet.
- Installing ceiling fans and new light fixtures.
- Replacing baseboards or adding trim.
- Fixing broken windows.
- Replacing bathroom subfloors due to leaky toilet seals.
- Installing new or refacing / painting kitchen cabinets.
- Replacing doors.
- Changing out receptacles, light switches.
- Painting the exterior.
- Adding a deck.

MORE EXPENSIVE FIXES ARE:

- Replacing HVAC systems or adding central air.

- Shoring up foundations.
- Reroofing, when it involves a tear-off.
- Replacing all plumbing, sewer lines and electrical.
- Pouring concrete for driveways, sidewalks, steps.
- Installing replacement windows throughout.
- Complete kitchen / bath remodels.
- Building garages / additions.
- Inspections for Fixer Upper Homes

If your state permits inspections before purchase ~ if your contract lets you cancel the purchase contract for any viable reason ~ always, always, get a home inspection by a credentialed home inspector before committing to complete the sale.

But there are many types of home inspections that you may want to consider before buying a fixer upper, and some of those inspections could involve asking the seller to foot the inspection bills:

Roof Certifications: Obtaining a roof certification at the seller's expense is good

business practice, if you can persuade the seller to pay for it.

Home Warranty: Not all sellers will pay for a home warranty, but many view it as insurance against those late-night phone calls when things break after closing.

Pest inspections: Not every state has a pest problem, but if your area deals with damage from beetles, termites or ants, ask for a pest inspection, and make your purchase offer contingent on your approval of the inspection including seller-paid repairs.

Sewer line inspections: As properties age, so do their sewer lines. In some parts of the country, Orangeburg pipe, which is basically tar paper, has been popular for use in the last part of the 20th Century.

Home inspection: Not all home inspectors are licensed and few states regulate them. Look for experience, background to qualify the inspector and read the contract for recourse.

Engineering Reports: Natural hazard or geological disclosures. An engineer can determine if that home on a hill is likely to slide. Pay attention to landfills nearby, contamination reports and other detrimental resale hazards.

PURCHASE OFFERS

ARE YOU READY TO MAKE A PURCHASE OFFER?

Making a purchase offer and actually buying a home are generally two different actions, but home buyers sometimes confuse the two. Especially in states such as California where the purchase offer is not the final negotiation due to contingencies in contracts.

In some states on the East Coast, it is common to write a letter of intent to purchase and, in many ways, it seems the more civilized way to buy a home. However, many other states contain provisions in standard purchase contracts that let a buyer cancel the contract and get back their entire earnest money deposit.

DO YOU HESITATE TO MAKE A PURCHASE OFFER?

If the home you are thinking about buying is likely to quickly sell, and if you have a way to later cancel the contract, you should immediately make a purchase offer. Don't sleep on it or try to get every single question answered beforehand or you may very well lose the home. Somebody else could beat you to the draw and steal it out from under your nose while you're busy weighing the pros and cons.

If you like the home, odds are several other active home buyers will, too. You're not the only smart cookie in the market place who can spot an excellent buy.

And no, losing the home doesn't mean it was "supposed to be that way." Consider instead that you were supposed to buy it, and you messed up.

REALITY OF PURCHASE OFFERS

When a home seller accepts a purchase offer, the seller is hoping the buyer will complete the transaction at the price agreed upon and believes there is nothing wrong with the

condition of the home. The home buyer, on the other hand, is hoping the transaction will close because the home is in A-1 condition and perfect.

It's rare that either of those expectations are in line with reality. No home is perfect and many conditions can change once a contract is accepted.

- Buyers often submit repair requests.
- Low appraisals can threaten to blow the deal.
- Mortgages can be denied in underwriting.

TYPES OF HOMES THAT QUICKLY SELL

In seller's markets, almost every home sells within 30 days. In buyer's markets, the DOM will be longer. There are many inherent characteristics and qualities that determine whether homes are likely to sell fast, but these are the top two combinations:

Turnkey homes in high-demand neighborhoods, excellent condition and priced right.

Cosmetic fixers in good locations and priced below comparable sales.

If the home you want to buy falls within those two categories, you should quickly make a home offer, providing you retain cancellation rights.

Some real estate agents do not like to waste time writing an offer that a buyer might later cancel and will try to dissuade you from making an offer to purchase. Some might not even disclose to you that you have a certain number of days to change your mind. Don't hire an agent who doesn't have your best interest at heart.

PROS TO MAKING IMMEDIATE OFFERS TO PURCHASE

The obvious reason to make a purchase offer right after finding a home you love is you will prevent anybody else from buying it. When the seller accepts an offer from you, the seller cannot accept another, except a back-up offer, good only if your contract is canceled by you.

If your offer is first and sole, you can negotiate on price and terms. You can make a lowball offer. Your negotiation power is minimized if there are multiple offers.

Even if other buyers are interested, they will generally slink away once the seller accepts an offer, opening the door for your renegotiations, if any, after the home inspection.

CONS TO MAKING IMMEDIATE OFFERS TO PURCHASE

If you're undecided between two homes and go into contract on property A, property B might not be available if you should change your mind and cancel the first transaction.

Return of an earnest money deposit is not automatic. Both parties are required to sign cancellation instructions. In California, for example, a seller can delay signing for 30 days, without penalty, an authorization to return the good faith deposit.

Buyers can incur appraisal, credit report and home inspection fees that are non-refundable. Generally, title policy / escrow and other closing costs are waived upon cancellation.

Given the alternative of losing the home you want, however, it is advantageous to learn from the mistakes of others who have lost opportunities ~ because they were hesitant to act with urgency ~ instead of learning this painful lesson yourself.

EARNEST MONEY DEPOSITS - PROTECT YOUR GOOD FAITH DEPOSIT

Buyers always ask how much of an earnest money deposit is required. Typically, there is no set requirement. In California, contracts must contain consideration to be valid, but that amount can be as little as one dollar. Laws in your state may be different. Bear in mind, however, that the amount of your earnest money deposit depends primarily on your marketplace and local custom.

WHAT IS AN EARNEST MONEY DEPOSIT?

It's a good faith deposit but not to be confused with a down payment. When buyers execute a purchase contract, the contract specifies how much money the buyer is initially putting up to secure the contract, to show "good faith," and how much money all together will be deposited as a down payment. The balance is generally financed as a mortgage or a combination of mortgages.

SO, HOW MUCH IS ENOUGH?

Because there is no set amount, it varies from market to market and across the country. In California, deposits are generally 1 to 3 percent of the sales price. Buyers here do not often put down more than 3% since most sign a liquidated damages clause that limits the seller to 3% of the purchase price as damages in the event of a default. But it's not unusual for a buyer purchasing a \$300,000 home to put down \$1,000, especially if the buyer is obtaining 100% financing. In those scenarios, the deposit is most often refunded to the buyer and subsequently used as a credit toward closing costs because the financing makes up the entire purchase price.

If it's a seller's market, with many buyers fighting over limited inventory, it makes logical sense for the buyer to put down a much larger earnest money deposit to entice the seller to accept the offer. In buyer's markets, a larger earnest money deposit might entice a seller to accept a much lower purchase price. So you see, it all depends.

BE CAREFUL TO WHOM YOU GIVE YOUR EARNEST MONEY DEPOSIT

A reader from New Brunswick, Canada, Sylvie Schriver, claims she lost her \$2,500 earnest money deposit by handing it over to an individual who professed to be a real estate broker. She says the broker stole a brokerage's logo and business supplies to make it appear that he was legitimate; however, he vanished when Sylvie called to ask questions about her mortgage. When she reported the crook to the police, she then discovered that others had filed complaints. Sadly, at that point, Sylvie's money was gone.

Never give an earnest money deposit to the seller.

Make the deposit payable to a reputable third party such as a well known real estate brokerage, legal firm, escrow company or title company.

Verify that the third party will deposit the funds into a separately maintained trust account.

Obtain a receipt.

It is not advisable to authorize a release of your earnest money (or a pass-through) until your transaction closes.

IS YOUR EARNEST MONEY DEPOSIT REFUNDABLE UPON CANCELLATION?

First, read your contract. Laws vary from state to state. In California, standard C.A.R. purchase contracts allow for the return of the earnest money deposit to the buyer within a specified time period, by default 17 days, should the buyer elect to cancel the transaction. If, at that point, the seller refused to return the deposit without cause, the seller could end up paying a \$1,000 civil penalty to the buyer.

Upon cancellation, the sellers and buyers are asked to sign mutual release instructions. If an agreement cannot be reached, the party holding the earnest money deposit will continue to hold it until an agreement is reached. If no agreement has been reached after a few years, escrow companies then send the parties a certified letter asking for mutual instructions. The letter says if nobody responds within a certain time period, then escrow will return the money to the buyer. If the seller contests the action then, after 3 years, escrow will send the money to the state of California, presumably to help balance our budget deficit.

MAKING OFFERS ON A HOME

Once a buyer has selected the right home to buy, figuring out how much to offer to buy that home can be daunting. Buyers are concerned that if they offer too little, they will risk insulting or alienating the seller. If they offer too much, they could overpay.

It's normal for a buyer to want to lean on her or his real estate agent. In these instances, buyers often expect their agent to pull a figure out of a hat and hand it to them.

SHOULDN'T A REALTOR TELL ME HOW MUCH TO OFFER?

While real estate agents can guide a buyer to choose the right number, don't expect a buyer's agent to name your price. Experienced buyer's agents will provide direction, market information and suggested price ranges, but the final price is the buyer's responsibility. Here are a few reasons why most agents will refuse to name your price:

OFFER WAS TOO LOW

If your real estate agent encouraged you to submit a lowball offer, and you lost the chance to buy that home because another offer came in higher or worse, because the seller refused to respond to the offer, you will instantly point the finger of blame at your agent.

OFFER WAS TOO HIGH

When an offer is immediately accepted, buyers often wonder if they should have made an initial offer for much less. When the agent insists on a price, and the seller signs without hesitation, buyers sometimes question whether their agent was working in the buyer's best interest or working for the agent's own commission.

IT'S NOT THE AGENT'S PURCHASE

It's the buyer's decision because it will be the buyer's home. When the transaction closes, the buyer will make the mortgage payments and be responsible for maintaining the

home, not the agent. Many buyers are much wiser than they give themselves credit for and are fully capable of selecting a price to offer.

AGENTS CAN GET SUED

You will undoubtedly hear from novice agents or those not engaged as a Realtor who will profess a different train of thought. That's because these people don't know any better, so don't hold their ignorance against them.

Some regulatory and state licensing authorities advise against agents telling buyers how much to offer. The National Association of Realtors' Code of Ethics do not suggest that agents pick pricing, either. Brokers definitely advise against it. And our court case logs are filled with decisions against agents who ignored those warnings, because buyers sued them for overstepping their bounds of authority.

Competent agents **do** provide enough guidance and assistance, however, to lead a buyer to choose the right offer pricing. Because regardless of what you may hear, it is always the buyers' choice. Not the agent's.

Although your real estate agent is likely reluctant to name a price for you, you can utilize your agent's expertise to figure out a price to offer when buying a home.

OBTAIN CRUCIAL DATA BEFORE MAKING A HOME OFFER

It's always helpful to find out why the seller is selling; however, you might not be able to obtain that information because the listing agent may refuse to tell you. But you can gather information without relying on the listing agent's cooperation. Realize that none alone of the following is sufficient, but each used in conjunction with the others will help buyers to make the decision on which price is best to offer.

DETERMINE THE MARKET

Check the temperature of the marketplace. Is the market hot, cold or neutral? If you're making an offer in a buyer's market, you will have less competition for the home. Sellers will be more likely to be receptive to any offer because there are fewer buyers.

If you're buying in a seller's market, sellers might not consider any offer that is less than list price. In fact, sellers could very well receive multiple offers, which means your offer should be as attractive as possible to win acceptance.

FIND OUT HOW MUCH THE SELLER PAID

While it is true that in many cases the price the seller originally paid for the home has little bearing on today's market; however, if the seller purchased a few years ago in a depressed market, with little appreciation since, the asking price should be closer to the seller's purchase price.

Although you may not be able to figure out the condition of the home when the seller bought it, nor whether the circumstances were extenuating, you can adjust for increases due to appreciation and remodeling improvements.

DETERMINE THE SELLER'S MORTGAGE BALANCE

Unless the seller is in default and willing to participate in a short sale, the seller is unlikely to accept an offer for less than the mortgage(s), plus closing costs.

If the seller has an extremely high mortgage balance, and the property is vacant, you can assume the seller is making those mortgage payments out-of-pocket, probably paying on two homes.

If the mortgage balance is very low, the seller might not be motivated to immediately sell, and can afford to wait out the market to get list price.

EXAMINE COMPARABLE SALES

When looking at comparable sales, use only the properties that are similar in configuration, age and location to the home you want to buy. Use the data from the most recently sold sales, and don't look beyond six months because appraisers won't.

ANALYZE LIST PRICE-TO-SALES-PRICE-RATIOS

Ask your agent for a trend report covering the last six months. Look up the prices of the homes as they were listed and compare them to the prices that have sold. Ask how much is the gap? Are homes selling over list price or under? If under list price, by which percentage?

If many homes are selling at 2% under list price, for example, that percentage could indicate the price the seller will or should accept.

CHECK SQUARE-FOOT COST AVERAGES

First, understand that smaller homes are priced higher per square foot and larger homes are priced less per square foot. You cannot take the average square-foot cost and

multiple it by the square footage of the home you want to buy to come up with a reasonable price to offer. But you can check the trends to determine if the square-foot cost averages are on the rise or declining and use that information to your advantage.

ASK FOR THE HOME'S HISTORY AND DOM

Sometimes agents take listings off the market and resubmit them as a new listing. Find out if the home was an expired listing and then relisted. The DOM are important, because if homes have been on the market longer than 30 days, the sellers might be more motivated to wheel and deal.

TOP TIPS FOR WRITING PURCHASE OFFERS

Sometimes buyers get so excited over finding that perfect home to buy that less attention is paid to how they write the purchase offer; however, the quality of your offer is almost as important as the price you offer to buy that home. Listings agents should not be placed in the position of having to educate selling agents on how to write an offer. Poorly written offers reflect badly on everybody and lessen your chances as a buyer to get your offer accepted. Here are 10 basic tips to guide you.

USE THE CORRECT FORM

While this may seem elementary to you, there are a lot of purchase contracts available. Each state has its own laws. Realtor associations publish purchase contracts. Manufactured Home Purchase Agreement

DETERMINE PRICE

Some courts have ruled that offers containing acceleration clauses such as "Will pay \$1,000 more than your best offer," do not constitute a genuine offer. You have a price in mind. Put it in writing.

Barring extreme buyers' markets or sizzling sellers' markets, you will probably want to offer a bit less than you expect to pay. You can ask for guidance, but don't expect your real estate agent to name a price for you. Picking buyer's prices is not an agent's job.

MAKE AN INITIAL DEPOSIT

In most states, to have a binding offer, you need to make a good faith deposit. It could be cash, personal check, cashier's check or other modes such as personal property, real

property, mortgages or unsecured promissory notes.

Spell out who will hold the deposit ~ almost anybody but the seller!

If your state has "liquidated damages," the seller could be entitled to retain your deposit if you default under the contract.

DISCLOSE YOUR DOWN PAYMENT

Your down payment could be cash, promissory notes, stocks, real estate or other assets. Generally, it is readily available cash. Some states require verification of your down payment within a certain time period. If you are selling an asset such as liquidation of a mutual fund to receive cash, that action could be considered a contingency of the transaction and, if so, you should disclose it.

NAME FINANCING TERMS

Please remember that your deposit, when added to your down payment and financing should equal the total consideration paid.

Some contracts allow you to specify a maximum interest rate, giving you a way to cancel the deal if your interest rate comes in higher.

Disclose the type of financing you hope to obtain: conventional, FHA, VA, contract of sale, assumption or other.

Include maximum points, especially if you are asking the seller to pay them.

INCLUDE CONTINGENCIES

California Association of Realtors (CAR) purchase contracts in California give the buyer by default 17 days to do inspections. Other states are similar. Federal law gives all buyers 10 days to inspect for lead paint, unless waived in writing. Many contracts carry provisions for such contingencies as:

- Appraisal
- Loan Funding
- Physical Inspections.

Depending on your state law, if you do not remove your contingencies in writing, they may still be in effect, all the way to closing!

ADDRESS POSSESSION SUCCINCTLY

My experience shows more battles are fought over possession than are ever necessary. Some deals fall out because sellers and buyers have unreasonable expectations about possession.

Spell out the possession date. It is on closing?
A day after closing?

If possession is prior to closing, to protect all parties, execute a rental agreement.

If possession is more than two or three days after closing, execute a rental agreement to protect the buyer.

SPELL OUT WHO PAYS THE FEES

Although most contracts call for fees to be negotiable, some fees, depending on your locale, are customarily paid by one party. If you don't know custom, you may be unintentionally inviting a counter offer. Call the listing agent before you write the offer and ask. Sometimes fees for title, escrow, county or city transfer taxes can equal one to two percent of the sales price. For example, if the seller is paying for title and it's customary for the seller to choose, let her choose.

REQUEST SPECIAL REPORTS

If you are concerned about a specific inspection, request a report. Few disputes irritate a seller more than to find out halfway through a transaction that the buyer had a concern that was not addressed upfront. Sellers feel duped. Buyers feel misled. Address the issues you want discovered. Some states allow the buyer to conduct all inspections before writing the offer just to alleviate this type of miscommunication. If it's customary for a seller to provide certain reports, ask for them.

CLEARLY STATE EXPIRATION OF OFFER

Deals sometimes fall through because buyers did not allot enough time for a seller to respond to the offer. If you are unsure, call the listing agent and ask how much time is required. Sellers can be out of town or have emergencies.

Clarify to whom the accepted offer should be delivered. If it's the buyer, and the buyer is unavailable to accept delivery, the buyer could lose the transaction if another buyer popped up out of nowhere.

Read your state contract laws regarding offer expiration.

MULTIPLE OFFERS IN SELLER'S MARKETS

Sometimes home buyers wonder if it's even worth trying to compete against other buyers in a seller's market. When there is very little inventory on the market, it's not unusual for a seller to receive 20 offers. It's almost always a good idea to write an offer anyway. Here are tips to make your purchase offer outshine the rest:

SUBMIT A LARGE EARNEST MONEY DEPOSIT.

Pending home sales sometimes blow up. Many sellers are worried that once they commit to an offer, the winning buyers might back out of the transaction or default on the contract after all the other buyers have disappeared. The earnest money deposit is part of your down payment. By increasing it above normal limits, you are showing the seller you are serious about closing. You're only offering the seller more money a little sooner than later, but it speaks volumes.

SHOW THE SELLERS YOU ARE QUALIFIED.

Almost every multiple offer will be accompanied by a lender letter. To stand out, ask your lender for a loan preapproval letter, which is different than a prequalified letter. Being preapproved makes you a stronger buyer in the seller's eyes.

GIVE THE SELLERS TIME TO MOVE.

Buyer possession is often a sticky point. It's hard enough to juggle multiple closings if you are selling and buying simultaneously, and even more difficult if the sellers are doing the same. Cut the sellers some slack by giving them two to three days to move out after closing, without expecting compensation.

SHORTEN OR WAIVE SOME CONTINGENCIES.

By federal law, you have 10 days for inspections due to lead-based paint, unless you waive that right in writing. Always get a home inspection, but tighten the time period. If your loan is solid, waive the loan approval contingency. Talk to your agent

about comparable sales to decide if you want to waive an appraisal contingency.

WRITE YOUR BEST OFFER.

Don't hope for negotiation. Offer your highest price. Make it attractive, maybe a bit above list price. Ask your agent for a comparative market analysis to determine pricing. Sometimes sellers deliberately set a price below comparable sales in an effort to generate multiple offers, so paying a little extra doesn't necessarily mean you are paying over market value.

MULTIPLE OFFERS IN BUYER'S MARKETS

In buyer's markets, the winning offer in a multiple offer situation is often less than list price. The number of multiple offers are generally considerably fewer, meaning you might be competing against one buyer in-lieu-of 20. Here are suggestions for competing:

SELL YOUR EXITING HOME FIRST.

If you are moving up and have a home to sell, don't buy before selling. If you're a first-time home buyer, you might already have the advantage over a buyer who needs to sell before buying. If one offer contains a contingency of sale, the seller will gravitate toward the offer without a contingency to sell.

PLAY NICE.

Don't ask the seller to give you personal items. Don't expect the seller to pay your closing costs. Find out which items are customarily paid for by the seller and offer to

pay a few such as title policies, escrow fees, transfer fees. Ask your agent to befriend the seller's agent because sometimes sellers reject offers based on what the seller's agent has to say about your agent.

FIND OUT WHAT'S IMPORTANT TO THE SELLER.

Ask your agent to find out the hot buttons in the transaction. These could be seller requests or listing agent expectations ~ ask what will seal the deal and give it to them. Maybe it's a fast closing. Maybe it's a longer than usual escrow period.

Most sellers have an emotional attachment to their home and want to see it fall into the

hands of an acceptable buyer. Be that acceptable buyer. Write the seller a brief letter explaining why you love the home and why you deserve to be chosen as the winning offer. Be sappy but sincere.

PREPARE FOR A COUNTER OFFER.

You can write the best offer, and a competent listing agent is likely to advise the seller to counter all the multiple offers, even in a buyer's market. In California, for example, sellers do not need to make identical counter offers. Each can be different. Also, the seller retains the right to choose or reject accepted multiple counter offers.

COUNTER OFFERS - ALL ABOUT REAL ESTATE COUNTER OFFERS

WHAT CONSTITUTES A COUNTER OFFER?

Counter offers are generated by a home seller after a buyer has submitted an offer to purchase. Typically, counter offers will state that the seller has accepted the buyer's offer subject to the following particulars. The following particulars can address such items as:

- Total consideration (generally a higher price)
- Increasing the size of the earnest money deposit
- Refusals to pay for certain reports or fees
- Changing service providers
- Altering closing or possession date
- Excluding personal property from the contract
- Modifying contingency time frames

WHAT'S A NORMAL NUMBER OF COUNTERS TO EXPECT?

Just as a seller can submit a counter offer to a buyer, a buyer can counter the seller's counter, which will then become a counter-counter offer or Counter Offer #2. There is no limit to the number of counter offers that can be submitted back and forth. Here is a real example of five counters on a property listed at \$415,000. The seller had submitted an offer at \$400,000. This was the result:

COUNTER OFFER #1 FROM SELLER TO BUYER

- A. Seller counters sales price to \$412,000. Appliances included without warranty.

COUNTER OFFER #2 FROM BUYER TO SELLER

- B. Buyer counters sales price to \$405,000. Appliances included without warranty.

COUNTER OFFER #3 FROM SELLER TO BUYER

- C. Seller counters sales price to \$409,900. Washer & dryer excluded from sale.

COUNTER OFFER #4 FROM BUYER TO SELLER

- D. Buyer counters sales price to \$407,500. Washer & dryer to remain as personal property.

COUNTER OFFER #5 FROM SELLER TO BUYER

- E. Seller agrees to sales price of \$407,500. Refrigerator, washer & dryer excluded from sale.

Finally, the buyer accepted the fifth counter. Phew.

HOW ARE COUNTER OFFERS REJECTED?

The seller is not required to respond to an offer. Does that surprise you? Of course, it doesn't mean that the brokers might not have earned a commission if the seller refuses to respond to a full-price-and-terms offer. The brokers would likely still demand payment. A non-response doesn't alleviate the seller's responsibility to the broker. Here are the most common ways to reject an offer:

Many purchase contracts provide a spot near the bottom for the seller to initial that the offer has been rejected.

Sellers can also write "rejected" across the face of the contract, initial and date it.

Most offers specify a date of expiration of offer in the event the seller elects not to respond.

WHAT ABOUT MULTIPLE COUNTER OFFERS?

Depending on your specific state laws, sellers may or may not be able to issue multiple counter offers. In California, it's fairly straight-forward. Sellers can counter more than one offer and each counter can be different. Even if one of the buyers accepts the seller's counter under these circumstances, the seller does not have to accept the buyer's acceptance. For more specific advice, consult a real estate lawyer.

HOW ARE COUNTER OFFERS ACCEPTED?

If the counter offer is issued by the seller, the buyer can simply accept the counter and deliver it back to the party designated to receive it. Time is always of the essence. Counter offers contain expirations just like purchase offers, which means the seller can accept another offer while the buyer is deciding whether to sign the counter offer.

When I've called agents to find out availability of property and whether any offers have been received, it's very common (especially in seller's markets) to hear, "We have a counter out." Some agents would feel discouraged at that news. But I've snatched homes out from under the noses of competing buyers by immediately submitting an offer from my buyer while the counter "was out." What commonly happens in these situations is the seller accepts the second buyer's offer and then simply withdraws her counter offer from consideration, kicking the first buyer out of the game.

OFFER NEGOTIATION TIPS - HOW TO NEGOTIATE AN OFFER

The best way to get an offer accepted is to appeal to a seller's emotions. Why? Because residential real estate transactions are put together ~ and sometimes blow up ~ over emotional hotbeds of insanity, lunacy and

what often seems to be bipolar mood swings. So it helps if you can give the seller a reason to care about you.

PUT A HUMAN FACE TO THE OFFER

This is a people business. Sellers have an unexplained desire, sometimes buried deep inside, to know that the house they are selling will fall into the hands of a worthy buyer. You scoff? You cynic, you. It's more than four walls, floors and a ceiling! A seller's house is a place where joy is shared, sorrows are expressed, hopes and dreams are crafted; it's a place of treasured memories.

To make a seller receptive to your offer, make the seller feel a connection to you. Showcase your vulnerability and sincerity in a letter. Make the seller feel as though you are the perfect buyer.

Include the following details:

- The names, ages and relationships of all occupants.
- A little history about your previous homes and how that relates to this home.
- Your occupation, education and struggles to get to where you are in life.
- List the specific reasons why you fell in love with this home.
- Explain why you deserve to live in this home and how you will care for it.

WRITE A CLEAN AND POSITIVE OFFER

This is more difficult than it sounds. Sometimes in the excitement of writing an offer, buyers don't read the offer for clarity. Ask your agent to double-check the offer as well.

Don't leave out an essential element or give the seller any reason to write a counter offer. If the agent prepares a counter to correct mistakes, it might make the agent consider changing terms of the offer as well. Make it a no-brainer for the seller to sign the offer the way you wrote it. Cross all your t's and dot all your i's.

- Verify the address is correct.
- Add up the earnest money deposit, loan amounts and balance of down payment to make sure the numbers equal the sales price.
- Check the closing date and possession terms.

Discuss motivations for changing contract default periods.

Review seller- and buyer-paid items and determine whether these items are "red flags" or likely to raise shackles.

Generally, the party responsible for title and escrow fees selects the services ~ has the seller selected the services and expects to pay for them, yet you want to choose? Don't let a small item become a big issue.

How much time are you giving the seller to respond and who needs to receive the response, which will designate delivery acceptance?

DETAIL SELLING AGENT'S CREDENTIALS

Just as the buyer tries to appeal to the seller, the selling agent should try to appeal to the listing agent as well. One of the biggest obstacles to a real estate transaction that listing agents face is incompetent selling agents. In the FAX or offer cover letter, a selling agent might want to:

- Share her experience and background
- State she is a full-time professional agent (to set her apart from some of the part-time rookies in the business)
- Indicate her willingness to cooperate
- Mention services she can provide that will help to expedite the transaction
- Express excitement over working with the listing agent.

REPAIR REQUESTS ON HOME BUYING AND SELLING

Every house needs repairs. There is no perfect house. If a house were perfect, everything would break or fall apart at the same time. But as it is, the envelope of a home: its roof, floors, walls, windows, structural support members, all have different life spans. Although, today, many appliances seem to stop working as soon as the warranties expire. But if you're looking for a perfect house, you can stop home searching now. It doesn't exist.

It doesn't really matter whether the home is newer or older, a home inspection is still likely to turn up a list of repairs. An older home, of course, will likely generate a longer laundry list of repair items. The objectives are to figure out which repairs are serious or safety issues and to determine whether a seller will honor a buyer's request for repairs.

GET A PROFESSIONAL HOME INSPECTION

Sellers will be reluctant to listen to or negotiate a request for repair from a buyer without receipt of a home inspection. I've had inexperienced agents refuse to give sellers a copy of the home inspection until after the request for repairs was agreed upon; however, that's like putting the cart before the horse. Besides, sellers will be more agreeable to making repairs if they see other deficiencies on the report that a buyer didn't request.

Every buyer should hire an independent and qualified home inspector to conduct a home inspection before buying a home. Not every state certifies inspectors, but most reputable inspectors will belong to a trade association. Ask for those credentials.

Don't ask your cousin or a friend to do this for you. There is little recourse available if your cousin or friend misses defects, plus a seller won't accept your friend's opinion.

OLDER PLUMBING AND WIRING

Ungrounded Electrical: Homes built before 1960 often have ungrounded wiring and polarized receptacles. These are two-plug outlets. You cannot change out a two-prong for a three-prong outlet without grounding the receptacle or installing a GFCI. Check your city code requirements.

While there is nothing bad about ungrounded wiring, it's not a good idea to plug in sensitive electronic equipment such as computers or televisions to an ungrounded outlet, much less appliances that draw a lot of power such as microwaves or newer refrigerators. Many homeowners run Romex from the electrical box to new receptacles for these items.

While some sellers will agree to rewire the house, the majority of them will adamantly refuse. If you do not want to buy a house

with ungrounded wiring, do yourself a favor and look at newer homes.

Galvanized Water Pipes: Most homes built before 1970 have galvanized steel pipes. Over time, minerals in the water supply can cause a build up inside the pipes. If you see low-water pressure, build up could be your problem. Galvanized pipes can also rust and leak.

Many home owners do not replace galvanized pipes but repair them when they leak. It is not unreasonable to ask a seller to repair a leaking galvanized pipe. Few sellers will replace all galvanized pipes with copper, CVPC or Pex.

ROOFING

Sellers will often provide a roof certification for the buyer, which is issued by a roofing company. If the roofing company recommends repairs, the certificate will not be issued until the repairs are made. Sometimes sellers will offer a cash credit for a new roof, if it needs to be replaced. Many home inspectors do not inspect roofs.

HVAC SYSTEMS / WATER HEATERS

Age is a good indicator for determining when heating and cooling systems need to be replaced. Check with city code enforcers to find out if you will need a permit and today's standards requirements. It's not unusual for a buyer to request new systems, but it is

expensive to replace. The average life expectancy of a furnace is about 20 years, and 10 years for a water heater.

CASH CREDIT OR REPAIR

Sometimes buyers are better off asking for a cash credit on a repair item instead of asking the seller to replace or repair. The seller has no vested interest in the home once it is sold, and might not hire the most qualified contractor or do the repair in a manner that is satisfactory to a buyer. Before asking for a cash credit, check with your lender to determine if a cash credit is allowed.

CLOSING TIPS

Above all, unless the home is brand new, do not nitpick small items. Address major issues and safety issues. Do not make repair requests for items that could have been readily ascertained on your initial inspection such as cracked sidewalks, bad paint jobs or uneven floors. Otherwise, the seller will feel you should have asked for those items in the purchase offer.

Smart buyers will ask the seller to pay for a home warranty. Home warranties cover major defects for a year and provide a buyer with peace of mind.

In closing, if the home has foundation problems or a wet basement, you might want to think twice about pursuing a purchase on this type of home.

HOME INSPECTION CHECKLIST COMPARISONS

All home inspections are different and can vary dramatically from state to state, as well as across counties and cities. Much depends on the home inspector and which association, if any, to which the home inspector belongs. the following information is based on National Association of Certified Home Inspectors guidelines.

HOME INSPECTION CHECKLIST OF ITEMS NOT INSPECTED

Understand that California home inspectors are not licensed, nor are they licensed in many states. However, a home inspector's standard practice typically does not include the following, for which a specific license to inspect and identify is required:

- Asbestos
- Radon, Methane, Radiation and Formaldehyde
- Wood-Destroying Organisms
- Mold, Mildew and Fungi
- Rodents
- Lead

GENERAL HOME INSPECTION CHECKLIST ITEMS

Structural Elements: Construction of walls, ceilings, floors, roof and foundation.

Exterior Evaluation: Wall covering, landscaping, grading, elevation, drainage, driveways, fences, sidewalks, fascia, trim, doors, windows, lights and exterior receptacles.

Roof and Attic: Framing, ventilation, type of roof construction, flashing and gutters. It does not include a guarantee of roof condition nor a roof certification.

Plumbing: Identification of pipe materials used for potable, drain, waste and vent pipes, including condition. Toilets, showers, sinks, faucets and traps. It does not include a sewer inspection.

Systems and Components: Water heaters, furnaces, air conditioning, duct work, chimney, fireplace and sprinklers.

Electrical: Main panel, circuit breakers, types of wiring, grounding, exhaust fans, receptacles, ceiling fans and light fixtures.

Appliances: Dishwasher, range and oven, built-in microwaves, garbage disposal and, yes, even smoke detectors.

Garage: Slab, walls, ceiling, vents, entry, firewall, garage door, openers, lights, receptacles, exterior, windows and roof.

HOME INSPECTION CHECKLIST ITEMS NEEDING SERVICE

Home inspection reports do not describe the condition of every component if it's in excellent shape, but should note every item that is defective or needing service. The serious problems are:

- Health and safety issues
- Roofs with a short life expectancy
- Furnace / A/C malfunctions
- Foundation deficiencies
- Moisture / drainage issues

HOME INSPECTION CHECKLIST ITEMS SELLERS SHOULD FIX

If you have a choice, it is smarter to hire your own contractors and supervise repairs. Before issuing a formal request to repair, consider the seller's incentive to hire the cheapest contractor and to replace appliances with the least expensive brands.

Although home inspectors are reluctant to and, in many cases, refuse to disclose repair costs, call a contractor to determine the scope and expense to fix minor problems yourself. No home is perfect. Every home will have issues on a home inspection. Even new homes.

A repair issue that will be a deal breaker for a first-time home buyer, causing the buyer to cancel the contract, will not faze a home buyer versed in home repair. Talk to your agent, family, friends and call a few contractors to discuss which types of defects are minor.

Pat yourself on the back, too, for getting a home inspection. Some buyers feel a home inspection is unnecessary, especially if they are buying new construction. If a light switch doesn't work or the air conditioner blows out hot air, those are problems you can see and test. The problems that aren't readily identifiable to you such as code violations, a furnace that leaks carbon monoxide or a failing chimney, are the types of defects a home inspector could identify in a new home. Builders' contractors make mistakes, as well.

TITLE, ESCROW, WARRANTIES & INSURANCE

TITLE INSURANCE POLICIES

When recording deed transfers and plotting land parcels, a lot can go wrong. You will want title insurance because it will protect you against defects and human error.

To understand title policy insurance in America, let's look at chain-of-title and how title companies search the public records.

FACTORS AFFECTING TITLE

Deeds establish chain-of-title, but sometimes those chains are broken. In addition, title searchers also look for reconveyances (proof that the encumbrances are paid off), and they look for easements, rights-of-way, CC&Rs, other elements affecting title to the property. Here are more records that are searched to piece title together:

- Marriage records
- Death certificates
- Tax sales

TITLE INSURANCE COVERAGE

Depending on the title company, consumers can choose among a variety of options, but the top three choices are Owners, Lender's and Extended Coverage.

Basic Owner's Title Policy Coverage:

- Clear title to the property
- Incorrect signatures on documents
- Forgery, fraud
- Defective recordation
- Restrictive covenants

- Encumbrances or judgments

Basic Lender's Title Policy Coverage:

- Mechanic's liens and unrecorded liens
- Unrecorded easements and access rights
- Defects and other unrecorded documents

Extended Owner's Coverage:

- Building permit violations from previous owners
- Subdivision maps
- Covenant violations from previous owners
- Living trusts
- Structure damage from mineral extractions
- Variety of encroachments and forgeries after title insurance is issued

HOW LONG ARE TITLE POLICIES GOOD FOR?

Forever, theoretically. If you are planning to resell the property within a couple years, ask your title company about "binder" coverage. Most companies will sell you a binder policy for 10% more. A binder is good for two

years, often can be extended beyond that time, and the fee charged for the new buyer's policy will be the difference between what you bought the property for and the price at which it sold. In other words, you will get a credit for the amount of coverage you purchased under your own Owner's Title policy.

HOW OFTEN ARE TITLE POLICY INSURANCE PREMIUMS PAID?

Once. The fee is due when you buy. You will never pay it again. Title policy insurance is the best insurance policy you can ever buy.

COMMON WAYS TO HOLD TITLE

The manner in which you acquire title has a bearing on legal ownership and on transfer in the event of death. Some types of title carry tax consequences. You should talk with a lawyer to find out your state laws and how holding title will affect you. Some states restrict the way parties may hold title, so all of these choices may not be available to you.

SOLE AND SEPARATE

If the home is in the name of one party and the other is not on title, the unnamed party may lose a voice in the say and control of the property, and possess no right to share future profits. Married couples who want to own real estate separately in some states must record a quitclaim deed from one spouse to the other.

Sometimes only one party of the two or more purchasers can qualify for the mortgage. In that event, it is common to add the omitted individual(s) by recording a quitclaim deed after closing. However, always seek legal advice because the loan may contain an alienation clause.

JOINT TENANTS WITH RIGHT OF SURVIVORSHIP.

Each person owns an equal share and if one party dies, title transfers to the survivor, regardless of what a will may specify.

Joint tenancy requires four unities:

- **Time.** Each owner must receive title at the same time.

- **Title.** Each owner must receive title on the same deed or document evidencing title.
- **Interest.** Each owner receives the same proportionate and equal share of ownership.
- **Possession.** Each owner has the identical right of possession.

If one of the joint tenants sells or conveys the interest created in a joint tenancy to another person, the joint tenancy is broken, and a tenancy in common is created. Joint tenants cannot stop another tenant from breaking the joint tenancy.

TENANCY IN COMMON.

Tenants in common share possession equally but may own equal or unequal shares of the home. If one party dies, unless the surviving party is named in the will, the decedent's interest passes to heirs.

Tenants in common share one unity. The right of possession. All tenants in common

have the right to occupy the property, and neither party can exclude the other.

COMMUNITY PROPERTY.

In CA, for example, only married individuals may hold title as community property. Upon death, half ownership transfers to the decedent's heirs.

In community property states, if a married person acquires title sole and separate, it is still possible for the omitted spouse to acquire a community interest in the property, even though that name is not on title. This event is typically caused by co-mingling funds.

COMMUNITY PROPERTY WITH RIGHT OF SURVIVORSHIP.

If one person dies, title transfers to the survivor, but during ownership, both signatures are required to encumber or sell the home.

This type of title does not allow either party to pass respective ownership to an heir.

TRUST.

Some people establish trusts and transfer title to the trust to reduce taxes on the estate in

the event of death. An estate planning attorney can set up a trust that is recognized by the I.R.S.

This type of trust should not be confused with an Offshore Foreign Trust, which unscrupulous financial planners peddle as a way to avoid paying taxes to the I.R.S.

CORPORATION OR PARTNERSHIP.

The legal entity owns the property, not the individual owners, and can result in tax consequences that may not be as favorable as some imagine. For example, corporations can be subject to double taxation (taxing the corporation and again taxing the shareholders). An S corporation avoids double taxation and is exempt from certain federal taxes. Always seek tax advice before forming a corporation or partnership.

Limited partnerships are managed by the general partner(s). The limited partners are not responsible for the debts of the partnership; typically the most a limited partner could lose is the limited partner's investment.

WHAT IS ESCROW AND WHY IS IT NEEDED?

Escrow is an arrangement in which a disinterested third party (an escrow holder), holds legal documents and disburses funds on behalf of a buyer and seller, and distributes them according to the buyer and seller's instructions.

People buying and selling real estate often open escrow for their protection and convenience. The buyer can instruct the escrow holder to disburse the purchase price only upon the satisfaction of certain prerequisites and conditions. The seller can instruct the escrow holder to retain possession of the deed to the buyer until the seller's requirements, including receipt of the purchase price, are met. Both rely on the escrow holder to faithfully carry out their mutually consistent instructions relating to the transaction and to advise them if any of their instructions are not mutually consistent or cannot be carried out.

Escrow is convenient for the buyer and seller because both can move forward separately but simultaneously in providing inspections, reports, loan commitments, funds, deeds, and many other items, using the escrow holder as the central deposit point. If the instructions from all parties to escrow are clearly drafted, fully detailed and mutually consistent, the escrow holder can take many actions without further consultation. This saves much time and facilitates a smooth closing of the transaction.

WHAT EACH PARTY DOES IN THE ESCROW PROCESS

THE SELLER

- Deposits the executed deed to the buyer with the escrow holder.
- Deposits evidence of pest inspection and any required repair work, per the purchase and sale agreement.
- Deposits required documents such as addresses of mortgage holders.
- Obtains approvals from the buyer on title insurance report, pest and other inspections.
- Receives funds from the buyer and/or any lender.
- Prorates insurance, taxes, rents, etc.

THE BUYER

- Deposits the funds required, in addition to any borrowed funds, to pay the purchase price with the escrow holder.
- Deposits funds sufficient for home and title insurance.
- Approves any inspection reports, title insurance commitments, etc. called for by the purchase and sale agreement.
- Fulfills any other conditions specified in the escrow instructions.
- Disburses funds for title insurance, recording fees, real estate commissions, lien clearance, etc.
- Prepares a final statement for each party, indicating amounts to be disbursed for services and any further amounts necessary to close escrow.
- Records deed and loan documents, delivers the deed to the buyer, loan documents to the lender and funds to the seller, closing the escrow

THE LENDER (IF APPLICABLE)

- Deposits proceeds of the loan to the purchaser.
- Directs the escrow holder on the conditions under which the loan funds may be used.

THE ESCROW HOLDER

- Opens the order for title insurance.

THE ESCROW

Once all terms and conditions of the instructions of both parties have been fulfilled, and all closing conditions satisfied, the escrow is closed and the safe and accurate transfer of property and money has been accomplished.

IN SUMMARY

- The escrow process was developed to help facilitate the sale or purchase of your home. The escrow holder accomplishes this by:
 - Acting as the impartial “stakeholder,” or depository of documents and funds.

Processing and coordinating the flow of documents and funds.

- Keeping all parties informed of progress on the escrow.
- Responding to the lender's requirements. Securing a title insurance policy. Obtaining approvals of reports and documents from the parties as required.

- Prorating and adjusting insurance, taxes, rents, etc.

- Recording the deed and loan documents. Maintaining security and accountability of monies owed and owing.

WHAT IS A HOME WARRANTY PLAN?

The last thing a home buyer wants to worry about after closing is what could possibly break or malfunction in her new home. Since that can cover a multitude of items and systems, for peace of mind, it's a good idea to get a home protection plan. It's especially a good idea to obtain a home warranty if you're a first-time home buyer with no experience maintaining a home.

WHO PAYS FOR THE HOME WARRANTY?

Now, whether the seller pays for the home protection plan and home warranty coverage or whether the buyer pays for it, will depend on your local customs. It varies. In many locales, it's normal for a seller to pay for the coverage because it's a seller benefit. Why? Because then the buyer won't be calling the seller after closing if something breaks. Many real estate agents will also give buyers a home warranty as a gift at closing.

HOW MUCH DOES A HOME WARRANTY COST?

They are fairly inexpensive, typically ranging from \$250 to \$400, depending on coverage. Home warranty companies sometimes run special sales and either discount policy prices or offer additional coverage for the same price. The policies are prepaid for a year in advance, at which time they expire or can be renewed.

HOW DO THEY WORK?

- Although specific plans provide for specific types of coverage, most operate the same way.
- If a home system or appliance breaks or stops working, the home owner calls the home warranty company.
- The home warranty company calls a provider with which it has a business arrangement.
- The specific provider calls the home owner to make an appointment.
- The provider fixes the problem. If an appliance is malfunctioning and cannot be repaired, depending on contract coverage, the home warranty company will pay to replace and install the appliance.
- The home owner pays a small trade service fee (less than \$100).

TYPES OF COVERAGE

Because all plans differ, you will want to ask specifically what is covered. Ask your real estate agent if upgrades are available. Pay close attention to whether the home warranty company will pay for repairs to make certain types of systems or appliances compliant with new regulations.

WHAT IF I DISAGREE WITH THE DIAGNOSIS?

Sometimes a service provider will deny a claim. (See below.) If that happens or if you are unhappy with the service provided, call your real estate agent and complain. Your real estate agent, if she has a good working relationship with the representative from the home warranty company that is covering your home, well, she can seek resolution for you. Agents all over the country are going to be very upset at this suggestion, but it works. In short, don't take "no" for an answer! Call your real estate agent.

WHAT IS NOT COVERED?

- Outdoor items such as sprinklers
- Faucet repairs are not covered under all plans
- Not all plans pay for refrigerators, washers & dryers or garage door openers
- Spa or pools, unless specific coverage requested
- Permit fees

- Haul-aways

WHAT CAN CAUSE DENIAL OF PAYMENT?

- Improper maintenance
- Code violations
- Unusual wear and tear
- Improper installation

GENERAL COVERAGE

- Air conditioning
- Dishwashers
- Doorbells
- Furnace / heating
- Water heater
- Ductwork
- Garbage disposal
- Inside plumbing stoppages
- Ceiling fans
- Electrical systems
- Range and oven
- Telephone wiring

Because coverage vary from state to state and from policy to policy, ask to see a sample copy of a policy before you commit.

HOMEOWNER INSURANCE

Shopping for homeowner insurance is one of those nagging home buying details that sometimes manages to slip through the cracks. It's not unusual for insurance agents to receive last-minute frantic phone calls from title and / or escrow companies requesting a home insurance binder. To save yourself trouble, it's a good idea to start shopping for a homeowner policy as soon as your purchase offer is accepted. Here are a few tips about buying homeowner insurance that are designed to save you time and money:

DETERMINE INSURABILITY

Your insurance agent needs extensive information from you to quote you the best rate for your policy. To determine insurability, an agent will ask:

- When was the home built?
- How old is the plumbing and electrical?
- What type of roof?
- What's the square footage?
- How many claims have been filed over the past 5 years?
- Where is the home located?

If the home is located in a rural area without a nearby fire department or there is no fire hydrant on the street, some companies may refuse to insure it. In that case, you may have to inquire at a specialty or surplus-lines company, and this quote will take longer to obtain.

DEDUCTIBLES

You can save money by having a higher deductible on your policy. Typically, insurance companies will start giving discounts at a \$500 deductible and increase the discount as your deductible increases. Most companies offer deductibles up to

\$10,000. Be careful, however, because many mortgage companies will not allow you to exceed a \$1,000 deductible, so check with your lender before opting for a higher deductible.

HOW MUCH INSURANCE DO YOU NEED?

Most agents use a cost estimator to figure cost replacement estimates. This will ensure that your home is insured for the correct amount. Insurance companies do not insure dirt. If you buy a home that includes a large lot, do not be astonished when you receive an insurance policy for a lot less than what you paid for the home. This is because you are buying coverage for the home and not the land.

In the past, replacement coverage was called Guaranteed Replacement Cost. There is no such coverage anymore. Today it is Replacement Cost Coverage, which means each insurance company designates a percentage of additional coverage on top of the insured amount. This is designed to protect the homeowner who has suffered a loss from having to pay additional construction costs to rebuild. It can cost more to build because of inflation or simply because material prices have increased. For example, if the dwelling coverage is insured for \$300,000, and the company has 125% replacement cost coverage, the homeowner would receive an additional \$75,000.

POLICY OPTIONS

You have other choices on your home insurance policy that you can tailor. Liability coverage is a part of your homeowner's insurance policy that is often overlooked.

It is common to see \$300,000 in coverage for liability, but the cost to raise it to \$500,000 is about \$20 more a year. You can have up to one-million coverage on most policies. Over

AVAILABLE DISCOUNTS

Make sure that you are getting all of the credits for which you are eligible. If you have an alarm system that reports to a central station (a company such as Brinks or ADT), in some cases, you can get up to a 10% discount. If you are over 50 and care to admit it, you may be eligible for a discount. Companies have different names for age preference policies, from senior discount to mature policyholder discount.

The most common discount is the multi-policy discount. This will save you money on

This protects the insured against claims arising from bodily injury and property damage to others. For example, if your five-year-old was playing with matches and set your neighbor's house on fire, your liability coverage would pay for this damage.

that, you need an excess liability policy or "umbrella" policy. Umbrella policies give you additional \$1,000,000 liability coverage for a \$300 to \$500 premium.

your home and auto insurance. By combining the two policies with the same company, you are given a certain percentage discount on both. The percentage discounts vary among companies, so it's best to shop around.

REVIEW YOUR POLICIES

Call your agent and review your homeowner policy at least every three years. Needs change, markets change and coverage change. You should stay up-to-date on your insurance because you never know when you will need to rely on it.