

GETTING STARTED

Tips for the homebuyers

1. HOW DO I KNOW IF I'M READY TO BUY A HOME?

You can find out by asking yourself some questions:

- Do I have a steady source of income (usually a job)? Have I been employed on a regular basis for the last 2-3 years? Is my current income reliable?
- Do I have a good record of paying my bills?
- Do I have few outstanding long-term debts, like car payments?
- Do I have money saved for a down payment?
- Do I have the ability to pay a mortgage every month, plus additional costs?

If you can answer "yes" to these questions, you are probably ready to buy your own home.

2. HOW DO I BEGIN THE PROCESS OF BUYING A HOME?

Start by thinking about your situation. Are you ready to buy a home? How much can you afford in a monthly mortgage payment (see Question 4 for help)? How much space do you need? What areas of town do you like? After you answer these questions, make a "To Do" list and start doing casual research. Talk to friends and family, drive through neighborhoods, and look in the "Homes" section of the newspaper.

3. HOW DOES PURCHASING A HOME COMPARE WITH RENTING?

The two don't really compare at all. The one advantage of renting is being generally free of most maintenance responsibilities. But by renting, you lose the chance to build equity, take advantage of tax benefits, and protect yourself against rent increases. Also, you may not be free to decorate without permission and may be at the mercy of the landlord for housing.

Owning a home has many benefits. When you make a mortgage payment, you are building equity. And that's an investment. Owning a home also qualifies you for tax breaks that assist you in dealing with your new financial responsibilities- like insurance, real estate taxes, and upkeep- which can be substantial. But given the freedom, stability, and security of owning your own home, they are worth it.

4. HOW DOES THE LENDER DECIDE THE MAXIMUM LOAN AMOUNT THAT YOU CAN AFFORD?

The lender considers your debt-to-income ratio, which is a comparison of your gross (pre-tax) income to housing and non-housing expenses. Non-housing expenses include such long-term debts as car or student loan payments, alimony, or child support. According to the FHA, monthly mortgage payments should be no more than 29% of gross income, while the mortgage payment, combined with non-housing expenses, should total no more than 41% of income. The lender also considers cash available for down payment and closing costs, credit history, etc. when determining your maximum loan amount.

5. HOW DO I SELECT THE RIGHT REAL ESTATE AGENT?

Start by asking family and friends if they can recommend an agent. Compile a list of several agents and talk to each before choosing one. Look for an agent who listens well and understands your needs, and whose judgment you trust. The ideal agent knows the local area well and has resources and contacts to help you in your search. Overall, you want to choose an agent that makes you feel comfortable and can provide all the knowledge and services you need.

6. HOW CAN I DETERMINE MY HOUSING NEEDS BEFORE I BEGIN THE SEARCH?

Your home should fit way you live, with spaces and features that appeal to the whole family. Before you begin looking at homes, make a list of your priorities - things like location and size. Should the house be close to certain schools? your job? to public transportation? How large should the house be? What type of lot do you prefer? What kinds of amenities are you looking for? Establish a set of minimum requirements and a "wish list." Minimum requirements are things that a house must have for you to consider it, while a "wish list" covers things that you'd like to have but aren't essential.

FINDING YOUR HOME

7. WHAT SHOULD I LOOK FOR WHEN DECIDING ON A COMMUNITY?

Select a community that will allow you to best live your daily life. Many people choose communities based on schools. Do you want access to shopping and public transportation? Is access to local facilities like libraries and museums important to you? Or do you prefer the peace and quiet of a rural community? When you find places that you like, talk to people that live there. They know the most about the area and will be your future neighbors. More than anything, you want a neighborhood where you feel comfortable in.

8. WHAT SHOULD I DO IF I'M FEELING EXCLUDED FROM CERTAIN NEIGHBORHOODS?

Immediately contact the U.S. Department of Housing and Urban Development (HUD) if you ever feel excluded from a neighborhood or particular house. Also, contact HUD if you believe you are being discriminated against on the basis of race, color, religion, sex, nationality, familial status, or disability. HUD's Office of Fair Housing has a hotline for reporting incidents of discrimination: 1-800-669-9777 (and 1-800-927-9275 for the hearing impaired).

9. HOW CAN I FIND OUT ABOUT LOCAL SCHOOLS?

You can get information about school systems by contacting the city or county school board or the local schools. Your real estate agent may also be knowledgeable about schools in the area.

10. HOW CAN I FIND OUT ABOUT COMMUNITY RESOURCES?

Contact the local chamber of commerce for promotional literature or talk to your real estate agent about welcome kits, maps, and other information. You may also want to visit the local library. It can be an excellent source for information on local events and resources, and the librarians will probably be able to answer many of the questions you have.

11. HOW CAN I FIND OUT HOW MUCH HOMES ARE SELLING FOR IN CERTAIN COMMUNITIES AND NEIGHBORHOODS?

Your real estate agent can give you a ballpark figure by showing you comparable listings. If you are working with a REALTOR, they may have access to comparable sales maintained on a database.

12. HOW CAN I FIND INFORMATION ON THE PROPERTY TAX LIABILITY?

The total amount of the previous year's property taxes is usually included in the listing information. If it's not, ask the seller for a tax receipt or contact the local assessor's office. Tax rates can change from year to year, so these figures may be approximate.

13. WHAT OTHER TAX ISSUES SHOULD I TAKE INTO CONSIDERATION?

Keep in mind that your mortgage interest and real estate taxes will be deductible. A qualified real estate professional can give you more details on other tax benefits and liabilities.

14. IS AN OLDER HOME A BETTER VALUE THAN A NEW ONE?

There isn't a definitive answer to this question. You should look at each home for its individual characteristics. Generally, older homes may be in more

established neighborhoods, offer more ambiance, and have lower property tax rates. People who buy older homes, however, shouldn't mind maintaining their home and making some repairs. Newer homes tend to use more modern architecture and systems, are usually easier to maintain, and may be more energy-efficient. People who buy new homes often don't want to worry initially about upkeep and repairs.

15. WHAT SHOULD I LOOK FOR WHEN WALKING THROUGH A HOME?

In addition to comparing the home to your minimum requirement and wish lists, use the HUD Home Scorecard and consider the following:

- Is there enough room for both the present and the future?
- Are there enough bedrooms and bathrooms?
- Is the house structurally sound?
- Do the mechanical systems and appliances work?
- Is the yard big enough?
- Do you like the floor plan?
- Will your furniture fit in the space? Is there enough storage space? (Bring a tape measure to better answer these questions.)
- Does anything need to be repaired or replaced? Will the seller repair or replace the items?
- Imagine the house in good weather and bad, and in each season. Will you be happy with it year-round?

Take your time and think carefully about each house you see. Ask your real estate agent to point out the pros and cons of each home from a professional standpoint.

16. WHAT QUESTIONS SHOULD I ASK WHEN LOOKING AT HOMES?

Many of your questions should focus on potential problems and maintenance issues. Does anything need to be replaced? What things require ongoing maintenance (e.g., paint, roof, HVAC, appliances, carpet)? Also ask about the house and neighborhood, focusing on quality of life issues. Be sure the seller's or real estate agent's answers are clear and complete. Ask questions until you understand all of the information they've given. Making a list of questions ahead of time will help you organize your thoughts and arrange all of the information you receive. The HUD Home Scorecard can help you develop your question list.

17. HOW CAN I KEEP TRACK OF ALL THE HOMES I SEE?

If possible, take photographs of each house: the outside, the major rooms, the yard, and extra features that you like or ones you see as potential problems. And don't hesitate to return for a second look. Use the HUD Home Scorecard to organize your photos and notes for each house.

18. HOW MANY HOMES SHOULD I CONSIDER BEFORE CHOOSING ONE?

There isn't a set number of houses you should see before you decide. Visit as many as it takes to find the one you want. On average, homebuyers see 15 houses before choosing one. Just be sure to communicate often with your real estate agent about everything you're looking for. It will help avoid wasting your time.

YOU'VE FOUND IT

19. WHAT DOES A HOME INSPECTOR DO, AND HOW DOES AN INSPECTION FIGURE IN THE PURCHASE OF A HOME?

An inspector checks the safety of your potential new home. Home Inspectors focus especially on the structure, construction, and mechanical systems of the house and will make you aware of only repairs that are needed.

The Inspector does not evaluate whether or not you're getting good value for your money. Generally, an inspector checks (and gives prices for repairs on): the electrical system, plumbing and waste disposal, the water heater, insulation and Ventilation, the HVAC system, water source and quality, the potential presence of pests, the foundation, doors, windows, ceilings, walls, floors, and roof. Be sure to hire a home inspector that is qualified and experienced.

It's a good idea to have an inspection before you sign a written offer since, once the deal is closed, you've bought the house as is." Or, you may want to include an inspection clause in the offer when negotiating for a home. An inspection clause gives you an "out" on buying the house if serious problems are found, or gives you the ability to renegotiate the purchase price if repairs are needed. An inspection clause can also specify that the seller must fix the problem(s) before you purchase the house.

20. DO I NEED TO BE THERE FOR THE INSPECTION?

It's not required, but it's a good idea. Following the inspection, the home inspector will be able to answer questions about the report and any problem areas. This is also an opportunity to hear an objective opinion on the home you'd like to purchase and it is a good time to ask general, maintenance questions.

21. ARE OTHER TYPES OF INSPECTIONS REQUIRED?

If your home inspector discovers a serious problem a more specific Inspection may be recommended. It's a good idea to consider having your home inspected for the presence of a variety of health-related risks like radon gas asbestos, or possible problems with the water or waste disposal system.

22. HOW CAN I PROTECT MY FAMILY FROM LEAD IN THE HOME?

If the house you're considering was built before 1978 and you have children under the age of seven, you will want to have an inspection for lead-based paint. It's important to know that lead flakes from paint can be present in both the home and in the soil surrounding the house. The problem can be fixed temporarily by repairing damaged paint surfaces or planting grass over effected soil. Hiring a lead abatement contractor to remove paint chips and seal damaged areas will fix the problem permanently.

23. ARE POWER LINES A HEALTH HAZARD?

There are no definitive research findings that indicate exposure to power lines results in greater instances of disease or illness.

24. DO I NEED A LAWYER TO BUY A HOME?

Laws vary by state. Some states require a lawyer to assist in several aspects of the home buying process while other states do not, as long as a qualified real estate professional is involved. Even if your state doesn't require one, you may want to hire a lawyer to help with the complex paperwork and legal contracts. A lawyer can review contracts, make you aware of special considerations, and assist you with the closing process. Your real estate agent may be able to recommend a lawyer. If not, shop around. Find out what services are provided for what fee, and whether the attorney is experienced at representing homebuyers.

25. DO I REALLY NEED HOMEOWNER'S INSURANCE?

Yes. A paid homeowner's insurance policy (or a paid receipt for one) is required at closing, so arrangements will have to be made prior to that day. Plus, involving the insurance agent early in the home buying process can save you money. Insurance agents are a great resource for information on home safety and they can give tips on how to keep insurance premiums low.

26. WHAT STEPS COULD I TAKE TO LOWER MY HOMEOWNER'S INSURANCE COSTS?

Be sure to shop around among several insurance companies. Also, consider the cost of insurance when you look at homes. Newer homes and homes constructed with materials like brick tend to have lower premiums. Think about avoiding areas prone to natural disasters, like flooding. Choose a home with a fire hydrant or a fire department nearby.

27. IS THE HOME LOCATED IN A FLOOD PLAIN?

Your real estate agent or lender can help you answer this question. If you live in a flood plain, the lender will require that you have flood insurance before lending any money to you. But if you live near a flood plain, you may choose whether or not to get flood insurance coverage for your home. Work with an insurance agent to construct a policy that fits your needs.

28. WHAT OTHER ISSUES SHOULD I CONSIDER BEFORE I BUY MY HOME?

Always check to see if the house is in a low-lying area, in a high-risk area for natural disasters (like earthquakes, hurricanes, tornadoes, etc.), or in a hazardous materials area. Be sure the house meets building codes. Also consider local zoning laws, which could affect remodeling or making an addition in the future. Your real estate agent should be able to help you with these questions.

29. HOW DO I MAKE AN OFFER?

Your real estate agent will assist you in making an offer, which will include the following information:

- Complete legal description of the property
- Amount of earnest money
- Down payment and financing details
- Proposed move-in date
- Price you are offering
- Proposed closing date
- Length of time the offer is valid
- Details of the deal

Remember that a sale commitment depends on negotiating a satisfactory contract with the seller, not just making an offer.

Other ways to lower ins-urance costs include insuring your home and car(s) with the same company, increasing home security, and seeking group coverage through alumni or business associations. Insurance costs are always lowered by raising your deductibles, but this exposes you to a higher out-of-pocket cost if you have to file a claim.

30. HOW DO I DETERMINE THE INITIAL OFFER?

Unless you have a buyer's agent, remember that the agent works for the seller. Make a point of asking him or her to keep your discussions and information confidential. Listen to your real estate agent's advice, but follow your own instincts on deciding a fair price. Calculating your offer should involve several factors: what homes sell for in the area, the home's condition, how long it's been on the market, financing terms, and the seller's situation. By the time you're ready to make an offer, you should have a good idea of what the home is worth and what you can afford. And, be prepared for give-and-take negotiation, which is very common when buying a home. The buyer and seller may often go back and forth until they can agree on a price.

31. WHAT IS EARNEST MONEY? HOW MUCH SHOULD I SET ASIDE?

Earnest money is money put down to demonstrate your seriousness about buying a home. It must be substantial enough to demonstrate good faith and is usually between 1-5% of the purchase price (though the amount can vary with local customs and conditions). If your offer is accepted, the earnest money becomes part of your down payment or closing costs. If the offer is rejected, your money is returned to you. If you back out of a deal, you may forfeit the entire amount.

32. WHAT ARE "HOME WARRANTIES", AND SHOULD I CONSIDER THEM?

Home warranties offer you protection for a specific period of time (e.g., one year) against potentially costly problems, like unexpected repairs on appliances or home systems, which are not covered by homeowner's insurance. Warranties are becoming more popular because they offer protection during the time immediately following the purchase of a home, a time when many people find themselves cash-strapped.