



STOP Paying Rent

THE SECRETS TO HOME OWNERSHIP

By

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INTRODUCTION

Have you ever wanted to own your own home but thought you couldn't afford it? Have you considered that after months and/or years of paying rent, you have nothing to show for it except your living space?

You might consider home ownership as a means to improve your quality of life as well as your financial health. You might think that you don't have the credit ratings or financial means to handle home ownership, but many people make this assumption without checking the facts. As a result of their inaccurate assumptions, people may deprive themselves of the chance to own their own home.

As a mortgage broker, real estate investor and homeowner, I encourage people to evaluate their financial means and what they want in their financial future.

Do you want to build equity while making a solid investment in your future? Do you know that you may obtain a monthly mortgage payment that matches your monthly rental payment? Do you realize what tax consequences you are accepting as a renter compared to being a homeowner?

I can help you answer these and other questions while *you* decide if you should make the move to home ownership now....

No More Rent:

Owning your Home for a Better Financial Future

Home ownership gives you two things that renting never will: equity and favorable tax treatment. I'll review both advantages below.

What is the best reason for owning your own home instead of renting? Home ownership enables you to build equity. Perhaps you've heard the expression "building equity," but were unsure what it meant exactly. "Building equity" means creating value in your real estate investment over time. You increase value with each monthly principal payment on your home. Your equity increases as you decrease the outstanding debt against it.

Additionally, your equity increases as the property itself appreciates in value over time. Think of equity ultimately as the difference between its market value or selling price and what you owe on your mortgage loan.

Home ownership provides tax advantages that you can never claim as a renter. The tax benefits are especially advantageous for single people with careers and no dependents. Traditionally this group pays more in taxes through renting than if they owned their homes, so buying a home offers you a real opportunity to decrease your taxable income while acquiring an asset that will appreciate over time.

Admittedly, once you purchase a home, you will encounter property taxes, which will generally comprise part of your mortgage payments. Nevertheless, you can deduct the interest you pay on the mortgage. Unlike the interest you pay on a car loan or credit cards, the interest you pay on a mortgage is tax-deductible. For example, if you have a \$900 per month rent payment, you've just paid \$900 in rent. However, if you have a \$900 per month mortgage payment, the interest portion (about \$650 per month) is tax deductible. Compared to a rent payment, a mortgage can provide substantial tax savings for most individuals.

Two Common Myths

As a mortgage broker and a real estate investor, one of my responsibilities is to help clarify people's understanding of the real estate market and what buying property entails. Generally, people succumb to one of two myths; as a result, they can set themselves up for financial risk or fail to maximize their financial opportunities.

First myth debunked: "You can get something for nothing." You can't! It is understandable that you may believe otherwise, especially if you accept a lot of the hype in advertising without learning more about real estate. Through advertising, mortgage lenders and real estate investment gurus can give people the impression that they can receive 100% financing for a home while paying no money down and no closing costs.

Your personal financial profile and your credit determine the costs associated with your real estate purchase, regardless of what claims you may hear or read from advertisers. While it is true that there are grant programs that provide the money for down payments and some closing costs, they are very specialized when it comes to qualifying and typically don't apply to the average homebuyer. Much of the misrepresentation in advertising about these issues is covered in my free report "No-Money Down Real Estate Investing". You can get it via email at www.SimpleTheBestLoans.com

Second myth debunked: "I can only afford to rent, so a house is out of the question." Really? Why are you so sure? How do you know? Many people can easily afford a house, but they don't think they can. They may wrongly believe that they possess poor credit, and they don't bother to verify the accuracy of their beliefs. If you don't check your assumptions, you may be missing out; in fact, that almost happened to me.



Let me tell you my story. In 1996, I was a single mother renting a home in Richmond after selling my house in Lynchburg. Once I grew accustomed to the Richmond area, I wanted to buy a house for my family. My real estate agent promptly sent me to the agent's lender, and that is where my horror story began.

I sat in the office with the loan officer across from me, as she held my excellent credit report and other documents. I had no way of knowing my credit scores were in the high 700s. The loan officer's attitude and demeanor made me uncomfortable. The loan officer never offered to show me my report, and at the time, I did not know if I was entitled to a copy or to disclosure. Dependent on the loan officer to tell me these things, I had no idea of my credit status.

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What the loan officer did tell me is that because I was divorced and a single mother, I was not considered a good risk to the lender. Then she made me an offer: If I would give her all the money in my savings account and borrow an additional \$5,000-6,000 from my parents, then she might be able to get a loan approved for me. The loan officer commented that that she was "so good" that she could "go to bat" for me and probably get the loan through underwriting -- for only a few outrageous fees.

Not surprisingly, I left the office in tears, convinced and despondent that I would never be able to own a home as a single mother. I confided my experience to a friend who was sure that something was not right about the loan officer's behavior. My friend's sister worked for a mortgage brokerage. My friend had heard enough of her sister's comments to know that people who had less money and worse situations than mine were able to get mortgages for home purchases. I was encouraged that my dreams could become reality, so I met with the senior mortgage broker of the company that employed my friend's sister.

After my daunting experience, I arrived prepared. I brought every scrap of financial documentation that I could find, but the information sat in my lap, unused, for the duration of the meeting. The officer said that I would qualify for a larger mortgage than I was actually seeking, and if the amount needed to be increased after I found the house I wanted, he could work it out for me.

I sat stunned and then relayed my story about the loan officer from hell. My new mortgage broker started laughing. I was not amused. Finally he explained to me that the loan officer had scared me but good. Doing so enabled the loan officer to try manipulating me into paying exorbitant fees. Suddenly, I saw how things worked. I realized that the most important information I could possess was *knowledge of the process*. I had a good job, a solid income, impeccable credit, money in savings, and no debt. I wondered how many other people with less-than-stellar financial credentials had been scared into paying more than they should for a mortgage. I know that these sorts of scenarios still happen, despite the increasing amounts of information available to consumers.



Whether you are working with me or another mortgage broker, you should expect an explanation of the process as you go through it and know what to expect and why. I have worked with clients who told me that even though they had purchased homes before, no one ever explained the process to them until I did. I believe in arming borrowers and potential homebuyers with accurate information and options: an informed choice by consumers means that they can make the best possible decision for their financial future.

If you want to start learning more about the process and how it applies to your profile, you can visit my website at www.PremierMortgageSource.com for tools and calculators that can help you to determine your qualifying status and loan potential.

Aim for the Target that's Right for YOU!

Potential homebuyers have asked me, "Should I aim 'low' for a 'starter home' that may go up in value, or should I aim a little higher for a more expensive place that is feasible but a bit of a challenge to afford?" The most solid advice I can offer is quite straightforward: if a question lurks in your mind about whether you can manage the monthly finances for a home, remain conservative in your decision-making. Go for the property that you can afford with confidence. In general, if you can find a property with a mortgage payment that matches your rent, you should be fine. Otherwise, working and living each month simply to make a mortgage payment sours your ownership. Owning a home should improve your quality of life rather than diminish it.

Seek the advice of a mortgage professional prior to shopping for a new home. Learn what you qualify for and what type of terms you can expect. Get a qualification letter to present to the realtor you choose. That way, the realtor will be clear on what your price range is, and s/he can provide investment options that meet your needs, both personally and financially.

You will find as you view homes that you become increasingly emotional about your purchase. It is easy to grow attached to a vision of a dream home in your head or to fantasize about a home you saw that is out of your price range. You can have the same problem that you might experience at a buffet: your eyes might get bigger than your belly, especially if your real estate agent influences you. Some agents make a habit of pushing prospective buyers towards a more expensive property. Once your realtor is aware of your price range as indicated on your qualification letter, make sure s/he shows you property within that range.

To search properly for your first home, look for a property that will appreciate. To figure out if a property will appreciate, examine market conditions. For example, do you see revitalization in the neighborhood that interests you, particularly if it's an older neighborhood? Will the property be easy to sell to a new family? Always look at the schools in the neighborhood, even if you don't have children. The quality of the local school district affects the marketability of the property for resale.



Don't Invest in Home Ownership If...

Home ownership, despite its advantages, may not be for you if the issues outlined below apply to your life. My goal is to show you possible ways to maximize your financial future: sometimes that means identifying where and why an otherwise sound investment might spell trouble for you. Don't pursue home ownership if you...

- Plan to reside in the area for a short period of time. For example, if you buy a house and live there for only ten to fifteen months, you may not profit from selling because you will incur selling and closing costs. Make an investment elsewhere, and rent instead. If you feel uncertain about whether you will reside in a home long enough to make a profit through selling, perform an analysis: what will you spend to buy it and to sell it? The market and/or your particular circumstances may not permit a profitable sale, so rent instead.

- Live transiently. You can relocate much more easily through ending a lease rather than selling a home.
- Cannot find a home that meets your budget. If you can afford only \$500 per month but you can only find places requiring \$800 per month, keep renting and keep looking. Focus on saving enough to make a great down payment so your monthly payments remain manageable.

Deciding to purchase a home means honestly and realistically assessing your spending habits, your needs, and your overall financial health. Say that you are able to meet all your monthly expenses consistently. That could be a sign that you are ready to commit to buying a home - at least, superficially.

Overcoming Financial Obstacles—*Before you Purchase*

Let's look closer at those monthly payments. What if one of those payments is toward your outstanding credit card debt? What if another payment is toward your four-or five-digit student loan debt? You may be meeting your monthly debt payments without struggle right now, but given the very existence of your debt, you might want to think about managing it for a while longer before incurring a mortgage. Should you wait to buy and thereby play it conservatively, or should you go ahead and purchase the house in spite of your uncertainty?

That depends on a number of factors that are *unique to you*. There is no simple right or wrong answer to the question above. As with most financial questions, there is no "one size fits all" answer. For this reason, I am offering the opportunity to review your particular situation, your spending history, and your future plans individually so that you can make choices about your money that are tailored to you.

If you want to finance a house, you may have to make changes in your spending habits and lifestyle; in other words, you may have to take stock of your long-term goals now and make different choices to reach those goals.

Above all, when you are making choices about saving and spending, remember, your favorable credit rating is a precious commodity. Once it is marred, you will have to invest considerable time, money, and effort to restore it.

My website www.ProtectYourGoodCredit.com contains lots of information which can assist you in better understanding how credit works and improving your credit scores if necessary. It is important to know that the credit bureaus offer credit scoring for different types of financing so the rating you get for an auto loan may be very different than the score you get when applying for a mortgage. Be very wary of internet offers for a free credit report. Many of these offers are actually misleading and require that you purchase some type of "credit protection" program to receive a free report. Others can be scams for capturing your personal information which can then be used for identity theft. The cost of a credit report from a reputable mortgage broker is typically between \$15 and \$20. It is the most comprehensive type report. Have a mortgage broker pull your credit once or twice a year to keep tabs on your credit rating and any potential identity theft problems.

Contact any of the credit bureaus directly for a free credit report once a year. If you get one free report a year directly from the credit bureaus and have one pulled by a mortgage professional for which you pay a nominal fee, you should be able to keep tabs on your credit rating and know quickly if there are any problems with your report on which you need to take action.

And, remember, the fastest way to improve/maintain your credit is simply to make your monthly payments (even if it's just the minimum) on time!



Issues for Self-Employed, Independent Contractors & 1099 Employees



If you fall into this group, expect a longer qualification process, unless you have been employed in the same line of work with the same level income for over two years. You may need a stated income loan, which means that you don't have to verify income for underwriting; instead, you simply "state" the income you need to make your qualifying ratios what they need to be.

Underwriting guidelines determine all loan programs. One loan program may differ from another program because one requires a higher or lower "qualifying ratio," which always refers to the debt-versus-income ratio. Some loan programs provide for ratios that allow the borrower to have higher debt-to-income ratios, whereas others require lower debt-to-income ratios.

When I place a client into a stated income program, I review the ratio guidelines, and then I "state" the income necessary to make the ratios fall within the guidelines for the program. Keep in mind that with a stated income loan, the income must be reasonably expected from the type of work described. For instance, if you work as a hairdresser at a chain store, you may think you are self-employed; however, you aren't likely to earn \$100,000 a year. However, if you are a hairdresser who owns a salon, \$100,000 may be reasonable income to state.

Be aware that stated income loan programs usually require a higher credit score than other loans. Often scores of 720 or higher are required to qualify for the most favorable rates and terms. For instance, if the current market rate for a 30-year fixed mortgage is 6%, you want your credit, etc., to be sufficient to obtain this rate. If your credit score is not over 720, does this mean you can't get a stated income loan? No, but you'll probably get a higher rate than 6%.

Earners in this category need to be more strategic and conservative in their financial planning prior to making a down payment. You should create a reserve, or "nest egg," that is larger than that of the average worker, even if your projected annual earnings are the same. There is simply more unpredictability for people who are not working for an established salary with companies or organizations. Thus, your reserve will need to be bigger than that of salaried people because your income may be sporadic. Remember that the reserve needs to cover daily expenses as well as your monthly bills.

Financial planning for this demographic tends to be highly individualized, so please talk to a financial advisor or other related professional who can review your unique profile and make decisions accordingly.

How to Avoid Being "House Poor"

"House poor" means that you've purchased a home with a mortgage that is uncomfortable for you to make each month. If your struggle to meet that monthly payment and your other basic necessities results in your living from month to month with your mortgage payment impacting your financial circumstances to the point that you are unable to enjoy other aspects of life, you are house poor. Your budget is so stretched that you no longer have money for a night out with friends, to go to a show or take a vacation. You end up feeling that you are constantly scrimping to get by and your life revolves around meeting that monthly mortgage payment.

Your home should improve the quality of your life not diminish it. To avoid falling into this type situation, you should consider the following:

- You must plan and budget as you would with any major purchase. Before you buy, even if you are paying rent regularly, if you can't afford to go to the movies with your friends, you're already in trouble.
- You may need to sit down with someone who can help you outline your income and expenses and then create a realistic budget.
- Include job loss and disability in your budget. To protect yourself against the financial consequences of disability, take 10% of your income each month and put it into an account. You must be prepared and have funds set aside to protect your investment in case of an unexpected emergency or financial crisis.
- Many financial advisors say you should have two to three months of income in reserve at all times. However, in today's market, I don't think that's enough. I recommend a minimum of six months and preferably a year of income reserved.
- Remember, the more specialized your employment skills are, the more money you should have in reserve for two reasons. First, you might be more particular about job opportunities. Second, your choices might be more limited. Get your reserve built BEFORE you buy, even if you obtain 100% financing.
- Know whether or not you'll be sure of income increases. Does your company have a written policy about cost of living increases or a track record for never giving anyone a raise? These are factors to take into account.
- Lenders do not give breaks for any established disability because such preferential treatment constitutes discrimination. Lenders give consideration to student debt over other kinds of debts because the student loan was an investment for higher earning potential and, therefore, treated less critically than unsecured debt.
- Any credit card or revolving debt is considered unsecured. From a lender's perspective, this is the most risky type of debt to incur. If at all possible, unsecured debt should be non-existent or kept to a bare minimum.
- Remember that disability insurance provides flat income: what you do with it is up to you. You may wish to use it toward house-related costs, but remember all of your other expenses. Don't count on this type of income to cover your mortgage and other monthly costs completely.

Even for the best financial planners, situations can arise that change an individual's or a couple's ability to meet their monthly mortgage obligation. It is always better to plan for 'worse case' scenarios, and there are several ways to do so.

Disability insurance provides income when there is a health problem preventing individuals from working their regular jobs. There are also mortgage protection insurance plans that provide coverage of mortgage payments when there is a disability, job loss or death.

If none of these options are available, determine if you can use your available assets to ensure timely monthly payments. *If not, take action immediately.* Contact your lender—do not wait to receive a late notice, call and let your lender know that you have had a financial crisis. Many will offer you options which can prevent having your credit impaired.

If the lender can't or won't work with you in a crisis, find a buyer for your home. Whether you want to sell it yourself or list it with an agent, acting quickly can prevent the mortgage company from pursuing foreclosure for late or non-payment.



While it is difficult to give up your home, it is far more difficult to recover financially if you have gone into foreclosure and ruined your credit. Once foreclosure starts, you typically cannot avoid the process, which will hurt your credit and essentially pose many of the same effects for you as bankruptcy. However, through selling your home and protecting your credit at the beginning of a financial crisis, you can purchase another home more quickly once the crisis has been resolved.

Ruined credit takes time and considerable energy to fix, so take steps to prevent your situation from going from bad to worse.

Comprehensive Residential Appraisals—Your Home’s True Worth

Learning about appraisals is a basic part of any real estate investment. You may already know the property values in your area, or you may work with a diligent real estate agent who does excellent research. Appraisals are about financial safety and risk-management so that you can save yourself heartache and worry through making sure that the value you’re assuming actually is there. Otherwise, the consequence is simple: you won’t get a return on your investment.

Getting an appraisal early in the buying process is a good idea. Make sure that your contract for sale stipulates that the property must appraise for the sales price or higher. Using a certified appraisal professional enables you to know exactly what you are getting if you decide to buy. Not only do you want property that meets your needs now, but you also want to know that it will appreciate in value in the future.

An independent appraisal of the property is required for any new purchase and with most refinance loans. There is one exception, if you are refinancing a current mortgage and your tax assessment is high enough, you can sometimes avoid the cost of an appraisal for your new loan, depending on your lender’s guidelines. Otherwise, for every real estate transaction, an appraisal is part of your cost. Your loan officer will handle getting the appraisal as part of your loan process and should provide you with a copy of the appraisal report for your records. He or she will refer you to a certified appraiser who is known for fair, accurate, market-savvy appraisals since the lender generally does not accept any assessments from realtors. Even if your realtor regularly performs thorough and diligent assessments, your realtor’s competitive market analysis is not acceptable to a mortgage lender. Lenders require an appraisal from a certified residential appraiser because this type of appraisal is the only fair, independent, objective assessment of property value.

As part of the valuation assessment, the appraiser identifies recent sales of similar property types. Each comparable property, usually a total of three, is assessed against the subject property, and value is added and/or subtracted based on specific features of each property. Utilizing industry standard guides, the appraiser then offers the estimated market value of the subject property. You should review your appraisal carefully until you fully understand the positive and/or potentially negative aspects of your property so that you can make informed decisions regarding any improvements or upgrades in the future.



A uniform residential appraisal report provides an objective and thorough description of the property and the area in which it’s located. It identifies whether the property is urban, suburban or rural. It includes the legal description of the property and of the market conditions in the area. The appraisal report also describes the type of structure (such as one or two-story), the materials used for construction (both interior and exterior), the number of rooms, the type of heating and air

conditioning, and the type of appliances installed. It gives the age of the property, its condition, and overall square footage.

If you found an appraiser whom you like, maintain and/or build a relationship with him/her so that you have someone you trust to help you assess the next property you buy for yourself or for investment. Particularly if you buy real estate for investment purposes, an appraiser who works with you over time will be able to help you assess your strengths and blind spots when evaluating a real estate purchase. If your real estate investment is in a rental property, know that an appraisal report should include a market analysis and a rent schedule of current rates so that you can make accurate financial plans for future tenant rent payments.



Sometimes you need a second opinion from a different appraiser. As a rule, a conventional lender may ask for more than one appraisal in situations where the property is extremely unusual (for example, historic, high-end property). Generally, for the basic single-family residence, there is no need for a second appraisal, but if there are any doubts, it's better to go ahead and pay for the second appraisal.

An appraisal is a means of resting secure in the knowledge that you can plan on your property's true worth. A solid appraisal helps to remove the gamble and risk from a real estate purchase. The cost of an appraisal is a small price to pay for information that could save you from a lack of return on a poor investment.

Protection from Legal Obstacles to Home Ownership: Title Searches

The person performing the title search will look for red flags, such as any confusion surrounding the transfer of deeds or the release of liens. The lender will require you to have a title binder for lender's title insurance, which is incorporated into your closing costs. You will also have the option to purchase owner's title insurance. It may seem like an unnecessary expense, but it is an important form of protection for your real estate investment.

Even with a title search performed by a highly competent professional, mistakes happen. For that reason, owner's title insurance will protect your investment in the event of problems with the title down the road. Most insurance, such as your car insurance, protects you in the event of future problems. Title insurance is the opposite: think of it as protecting you "into the past," not "into the future." Here's how title insurance works: if a title researcher goes backward in time examining the transfer of deeds and liens on the property, you are insured against any flaws and resulting liabilities if title to the property was not actually free and clear.

Now you can see why a title search and title insurance are so important, but you might also be balking at the fees. To protect my clients, I review all settlement statements for closings. My clients often have questions and concerns about the fees, title insurance in particular, because it is one of the highest. I review all closing fees carefully and question any that appear inflated to me.

A conscientious loan officer, will work to ensure that his/her clients pay only reasonable amounts for closing fees; if needed, they will call other closing agents to compare fees and costs. If someone is overcharging, a professional mortgage broker can usually spot any excessive fees, identify the source, and try to negotiate something more reasonable.

Buying a Home with Another Person

Generally, if you purchase a home with your spouse, most states allow you both to hold the property as tenants by the entirety, which means that each individual owns the property 100%. In the case of “tenants by the entirety,” if one person died, the surviving spouse would own the house 100%; the surviving spouse wouldn’t have to buy the deceased spouse’s half from the deceased’s estate or worry over sharing ownership with the deceased’s other heirs. You should always check about these legal particulars and any quirks in your jurisdiction. Remember that ownership and title affect the transfer of property.



If you purchase a home with someone other than a spouse, generally, the property will be deeded as tenants in common, which means that each individual on the deed owns an equal percentage of the property, no matter how many people are on the title. For instance, if two people buy the property, each owns one-half; if three people buy the property, each owns one-third, and so forth. Determine the title and ownership issues before you close on the transaction; for example, you should definitely decide how you want ownership to transfer if someone on the deed dies. If the title is tenants in common with right of survivorship and one owner dies, the deceased person’s share transfers in equal portions to the remaining tenants.

Other issues exist for non-married people who buy a home together. Consider what will happen to the property if you decide that you no longer wish to be involved with the other buyer(s). For example, if you buy a house with your fiancé and you break-up, what will happen to the property? What if one of you wants to sell it, while the other wants to keep ownership? What if you both want to sell, but one wants to use a real estate agent, while the other wants a sale by owner? Because of these issues, you should agree upfront about how to handle these scenarios and commit to your decisions in writing after receiving appropriate legal advice from a professional.

Protecting Yourself with Insurance: What you really need

Obviously you want all the protection you can afford, but you don’t want to spend unnecessarily. Let me suggest what you may need to feel secure:

- A home warranty, which functions like insurance for repairs.
- Homeowners’ insurance that has been tailored to the specific risks posed by your geographic area. Ask about riders for floods, tornadoes, hurricanes, etc. if your area warrants that type of protection.
- Disability insurance, to provide another means of income in case of a catastrophic health issue. If you can find ways of obtaining income during a rough health period, you are more likely to be able to afford your monthly mortgage payment.
- Mortgage protection insurance is available which covers your mortgage payment in the event death for you or your spouse.

Spotlight on Private Mortgage Insurance

PMI is a form of insurance protection on your home *for the lender*. If you purchase a home and put less than 20% down, the lender issuing your mortgage will automatically require you to pay PMI. This premium will be included in your monthly mortgage payment. PMI guarantees the mortgage lender *payment in full* of your outstanding mortgage balance *if you default*.

Some tips about managing PMI:

- As you pay down your mortgage principal, your equity increases. As your property appreciates, your equity increases. With increased equity in your property, you can rid yourself of PMI premiums. If your tax assessment increases, through property values appreciating, such that your outstanding loan balance is 80% of the tax value, you can have your PMI removed from your monthly payment. If your principal balance reaches 80% of your original loan amount through your monthly payments, you can have PMI removed from your loan.
- Lenders generally want proof that you have 20% equity or more in your home, so you may need a current appraisal.
- As you consider various mortgage loan options, you should keep in mind that PMI insurance premiums resemble rent payments: you just pay them, and you receive no benefit for them, tax or otherwise. It is almost always better to find a loan option that prevents you from paying PMI, even if it has a higher rate of interest, since any interest you pay on your mortgage is tax-deductible.
- If you received a loan after July, 1999, federal law requires that your lender must cancel PMI when your outstanding payments are less than 78% of your purchase price for your property.

Preventing Hidden Expenses



Unexpected costs and repairs may catch a first-time homeowner by surprise. Keep these issues in mind and take steps to protect yourself:

► Budget appropriately for repairs. Just as your car requires regular maintenance, so does your home. You budget for gas, oil, lubes, and tires, for example, and the same applies to your property. As you get to know your home, you will learn what maintenance your home requires to remain functional and attractive for resale, and you can budget accordingly. Our home maintenance section in Appendix B provides basic maintenance guidelines for you to follow.

► To prevent surprises before you close on the

transaction, order a complete home inspection by a qualified, licensed inspector who will check for functionality and costly repairs (e.g., the roof). An inspector will not look at cosmetic issues, but s/he will alert you to immediate maintenance issues or construction problems.

► Arm yourself with a home warranty. For around \$300 to \$400, you can purchase a home warranty that will protect your real estate purchase for up to a year or sometimes longer. If a repair problem occurred once you closed on your home purchase, this warranty would cover it. For a small deductible, usually around \$50, the warranty will provide for the repair to be fixed by a qualified professional. Buying this protection is much like purchasing an extended warranty on your car.

► In addition to a home warranty, when you purchase a new home, you are usually required to obtain a homeowner's insurance policy. This policy protects your investment in numerous ways. For instance, if a fallen tree damaged your home, your homeowner's policy would provide protection.

► If someone suffers an injury on your property, the homeowner's policy would provide the necessary coverage. In order to understand clearly what would and would not be covered by this insurance, you should sit down and discuss it in detail with your insurance agent. Understanding what coverage you have and how to maximize its benefits is part of becoming a homeowner. You may also save money by bundling your home and auto policies through one insurance provider.

► Save yourself heartache through researching the geographic pitfalls surrounding your home. For example, I recommend never buying below grade, which means the house rests below the street level and other houses. If a property rests below grade, you may experience drainage and run-off problems. Worse still, if there's a problem with the public systems, you could have a sewage line back up into your home. (Sorry, folks, but it happens. It actually happened to a friend of mine twice in the same week.) If your dream home rests below grade or poses other geographic challenges, such as being a prime target for hurricanes, make sure your homeowner's insurance has whatever riders, clauses, etc., necessary to cover these additional risks. Your insurance agent must inspect the property prior to underwriting coverage. It's always a good idea to meet with your agent once s/he inspects the property, and ask questions such as, "Are there any aspects to the property or area that would require additional coverage or riders to my policy?" It's always better to insure against potential risks from the beginning.



► Keep your repair costs low through DIY ("do it yourself"). Some home repair stores and community colleges offer free or low-cost classes on home repair basics. As a homeowner, you need to know the difference between a hammer and a screwdriver. Learn how to replace the washer in your faucet instead of paying \$75 per hour for a plumber to do it. Know how to replace/change the filter in your HVAC unit. Follow our maintenance guideline to know what regular maintenance items you need to do monthly, quarterly or annually. Good maintenance practices *now* can prevent expensive repairs *later*. To learn more about staying on top of maintenance issues and budgeting accordingly, please see Appendix B for a guide and checklist.

► Know EXACTLY what you are buying, its worth, its risks, and its future resale potential. To obtain this information, review your copy of the appraisal ordered for your loan package. You are entitled to copy and if your loan officer doesn't offer you one, ask for it specifically. A professional appraisal indicate the property's value, its market comparables, and the appreciation rate currently expected in the area.

Mortgage Options

New homebuyers may quickly notice that there are as many different loan programs as there are house styles. This is true! You should understand the entire loan process and the kinds of options available. Don't hesitate to ask detailed questions of your mortgage broker and your lender. As a consumer, you may need their help in educating yourself about which option is best for you. In the meantime, let me review some basic definitions regarding mortgages.

The interest rates on mortgages are either fixed or adjustable. Payments are made over a specified number of years, usually 15, 20, or 30. (There are some other programs which offer 10 or 40-year terms.) If your interest rate is fixed, no matter how many years are in the term, the rate will remain the same for the duration of the mortgage.

If the interest rate is adjustable, the interest rate can adjust monthly, semi-annually, or annually,



depending on the loan program. Some adjustable rate mortgages fix the rate for a specified number of years, typically 1, 3, 5, 7, and 10. Whatever your rate is at the time you close on your new home, the rate will remain the same for that specified number of years. After that time period ends, the rate will begin to adjust, usually once a year. If the interest rate is adjustable, the interest rate can adjust monthly, semi-annually, or annually, depending on the loan program. Some adjustable rate mortgages fix the rate for a specified number of years, typically 1, 3, 5, 7, and 10. Whatever your rate is at the time you close on your new home, the rate will remain the same for that specified number of years. After that time period ends, the rate will begin to adjust, usually once a year.

It is important to note that ALL adjustable rate mortgages (ARM) are tied to a specific index. The rate adjusts based on the changes in that particular index. Some indices change more often than others. Review the program index you are considering over a period of at least 10 years to evaluate your risk of the rate increasing substantially. Also, all adjustable rate mortgages have annual increase limitations and lifelong caps, so you will always know the absolute highest rate you would ever face if rates adjusted upward for an extended period of time.

Some mortgage programs include pre-payment penalties. Always ask if the programs you are considering include pre-payment limitations. Typically, a pre-payment penalty extends for the first 2 to 3 years of the mortgage. It generally states that if you pay off the mortgage prior to the penalty period expiring, you will have an additional 2 to 5 percent of the original mortgage loan added to the payoff amount. Here's an illustration:

Your mortgage was \$150,000 with a 2% 3-year pre-pay (PP). You decide to sell the house after 1 year because of a job change. When the mortgage lender calculates your payoff amount, they will add \$3000 to the principal balance (2% of \$150,000) as your penalty for paying the mortgage off prior to the 3-year penalty period expiring.

Many adjustable rate mortgage programs include variable payment plans. ARM programs also include interest-only payments, bi-weekly payments, and pay-option plans, which offer a variety of payment choices for just one loan. Fixed rate mortgages can sometimes be paid on a bi-weekly schedule but payments will usually be calculated with both principal and interest (PITI) included.

Unless you opt not to escrow your homeowner's (e.g., hazard) insurance and real estate taxes, those monthly amounts will also be included in your monthly or bi-weekly payments. Adjustable rate mortgages offer flexible payment options, interest-only options and often lower interest rates than standard fixed rate mortgages. If market rates are dropping, they also will give you a lower interest rate without the expense of refinancing. The disadvantage is that the rate will change and if the market trend is upward, your rate will increase on the adjustment anniversary. ARM's can have fixed rate aspects, such as the 5/1 ARM, which means the interest rate is fixed for the first 5 years no matter what market rates do.

A 15 year fixed rate is a guaranteed rate for 15 years and will ensure that you pay off your mortgage in that time frame. However, since the amortization period is shorter, even with a lower interest rate, the payments are generally going to be higher.

A 30 year fixed rate is guaranteed for 30 years. This is the most commonly sought loan. Some 15 and 30 year fixed rate programs offer bi-weekly payment options that are attractive to many buyers because it allows them to budget more easily for their mortgage payment.



Keeping Your Mortgage On-Track: Things To *AVOID* after Applying

You're positive that this house is the one: you have a ratified contract for sale; you are pre-approved for a loan; and your loan officer has submitted your loan package to the lender for final review. However, you haven't signed any closing papers yet. At this point in the process, there is a strong temptation to buy home furnishings, change the location of funds, book your vacation, or finally change jobs because the end is so close. But that's just the problem: your settlement hasn't happened yet, and until it does, you must act conservatively with your money to keep your closing as problem-free as possible.

Lenders can re-examine your credit right up until your mortgage is ready for settlement. Your credit-worthiness includes your recent purchases on credit as well as cash and your employment history. First, lenders can review your recent financial history, so beware of what you buy (avoid purchases over \$500.00 at this time) and what changes you make to your savings and checking accounts and other banking arrangements. Typically, lenders require you to disclose your recent bank statements for your accounts, certificates of deposit, money market portfolios, and other such assets. The lender wants to verify your funds to avoid fraud and the possibility of foreclosure if your financial history reveals instability.

Second, lender will also review your current employment and employment history. In addition to the banking statements and other documentation mentioned above, the lender will also want to see your W2s and pay stubs. All of these items together create your "qualifying documents" for your loan package and you should provide them as quickly as possible to your loan officer. Be sure to ask about deadlines for providing them and to make copies of everything you submit (mark the date of submission on your copies) for your own records.

A word of advice with planning for your settlement day: don't create a time crunch for yourself during closing. Many first-time buyers fail to realize that many different factors are woven together to bring a loan to closing; as a result, the time and date of your closing may change because of an unexpected, sudden issue. For instance, don't schedule your closing on the day before you are scheduled to leave town for business or vacation. If your closing is delayed, your schedule needs to be flexible enough to accommodate the change.

Conclusion

Home ownership provides better financial outcomes than renting for many people who may not realize that owning a home truly is an option for them. Being honest and detailed about your spending habits, needs, debt, income, and overall financial profile not only enables you to make your mortgage payments, but also protects your credit and allows you to reach long-term goals. Buying a home requires careful planning and assessment of a number of factors that I covered in this report. You simply can't rush your ability to save sufficiently or your research into the market and potential properties. My advice is focused on the need to avoid generic prescriptions about investing and saving and to make decisions tailored to your unique situation. As always, seek the advice of legal, financial, and other appropriate licensed professionals as needed.

My websites offer not only consumer information, but also free tools and reports that can help you with understanding most aspects of financing and purchasing real estate. These resources can assist you with making your trip to your loan officer, lawyer, real estate agent, or other professional advisor(s) more productive because you will be an informed consumer.

I welcome your feedback, so please don't hesitate to contact me at one of the sites below:

www.PremierMortgageSource.com

www.SimplyTheBestLoans.com

www.ProtectYourGoodCredit.com

Appendix A: Glossary

For a more comprehensive glossary, you can visit my company website, but the following is an overview of the most common mortgage terms:

Adjustable-Rate Mortgage (ARM): Also called a variable rate mortgage. The interest rate for this mortgage changes according to a specific index (for example, the prime lending rate can be used as an index). On the adjustment date, the interest rate changes.

Amortization: The process of loan repayment in installments according to an amortization schedule, which provides an itemization of principal payments and interest fees throughout the life of the loan. Generally, mortgages are amortized from 15-30 years, which is called an amortization term.

Annual Percentage Rate (APR): The rate of annual interest for a loan.

Appraisal: An objective assessment of your property's fair market value conducted by a professional, licensed appraiser who has been trained in real estate valuation and who possesses no vested interest in the property. The appraisal report provides a detailed, documented accounting of how and why your property is worth as much as the appraiser asserts. Your appraiser may use Uniform Residential Appraisal Form 1004 as the basis of your report and include all other supporting materials.

Asset: Anything that you own that has some value.

Assignment: Occurs when one person or entity transfers ownership interests in a property or a mortgage to another.

Assumable Mortgage: A mortgage that can be "assumed" or put in a buyer's name instead of the seller's name once the property is sold.

Bankruptcy: A judgment issued by a court of law that either erases a debtor's debt to one or more creditors or initiates a repayment plan for outstanding debt that reduces the total amount owed. Bankruptcy can jeopardize a debtor's credit and ability to obtain a loan.

Bi-weekly Mortgage: Instead of making the typical once-a-month mortgage payment, this plan allows you to make a payment every 2 weeks to pay off your mortgage more quickly.

Bona Fide: A genuine offer made in good faith with no intention to deceive or to commit fraud.

Broker: A professional who locates and unites buyers and sellers in the real estate market. Ideally, your broker is also a source of reliable information and referrals.

Call Option: A part of your mortgage contract with your lender that gives the lender the right to collect all of the outstanding balance at a specified time.

Cap: For adjustable rate mortgages, a cap limits how high your mortgage payment will become and how much an interest rate may increase in a given period.

Cash-Out Refinance: Refinancing a mortgage (possibly at a higher interest rate) so that you can convert some of your previous loan to cash.

Certificate Of Title: A document identifying the legal owner of property.

Chain Of Title: A paper trail of documents identifying who owned the property from the earliest date through subsequent owners up to the present. Usually, your local recorder's office keeps books identifying all owners and conveyances throughout the history of a property's existence.

Clear Title: Refers to property that is not burdened by any outstanding liens, mortgages, or conflicting ownership titles.

Closing: The final step of buying property in which the buyer completes the last pieces of documentation and agrees to the mortgage and fees associated with the sale (e.g., title insurance, taxes, appraisal, etc.). In particular, the buyer and seller sign the HUD-1 Settlement Statement, which details the financial arrangement in detail.

Collection: Occurs when a borrower defaults and the lender is forced to pursue the debt legally, possibly leading to foreclosure.

Credit Report: A history of a person's credit, employment, and residences prepared by a credit bureau.

Debt-Equity Ratio: The ratio of the outstanding debt a borrower/buyer owes in relation to the amount of equity a borrower/buyer has accrued.

Deed: The legal document showing property ownership.

Down Payment: The initial amount a buyer pays in cash with the remainder to be paid via a mortgage.

Earnest Money Deposit: The cash amount paid to a seller by the buyer to tender a good-faith offer to buy. Normally, a buyer may not recover this amount if the buyer decides not to buy.

Equity: The difference between the outstanding debt that a homeowner owes on the property and the fair market value of that property. Homeowners build equity through two sources: the appreciation of the property in the market and the accumulating payments toward full ownership of the property.

First Mortgage: The primary mortgage secured by a piece of property, usually the first that occurs in time.

Fixed-Rate Mortgage (FRM): A mortgage with a rate of interest that does not vary over the life of the loan.

Foreclosure: Occurs when a borrower defaults and the lender is forced to collect unsuccessfully. Foreclosure occurs when the lender must sell the property in order to pay off the mortgage obligation.

Grade: The angle or slope of land around a home.

Hazard Insurance: A specific type of homeowner's insurance covering damage to a property caused by fire, wind, etc. You should research the kinds of hazards that are common in your geographic area and obtain insurance accordingly.

Home Inspection: A complete examination of a building and the adjacent property to assess (potential) defects in structure, materials, electrical wiring, plumbing, roofing, and other aspects of construction that may cost the home-owner or may damage the property value for resale.

Home Inspector: A licensed professional with extensive knowledge of construction who determines if the property has any defects and if they can be reasonably remedied.

Homeowner's Insurance: Insurance that covers home-owners for damage to, or loss of, property, subject to limitations in the policy. May be supplemented with various types of hazard insurance and a homeowner's warranty.

Homeowner's Warranty: An insurance policy for a set period of time that covers certain repairs within the home.

HUD-1 Statement: The U.S. Department of Housing and Urban Development (HUD) created this standard itemized list of potential closing costs.

Insurable Title: This term describes a title that the title insurance company reviewed and certified as free and clear of liens, mortgages, and other legal obstacles to ownership.

Legal Description: A written profile of the property detailing specific measurements of the property's demarcation according to the jurisdiction in which the property rests.

Lender: Grantor of the loan to the buyer/borrower who collects both principal and interest through the borrower's repayments over time.

Liabilities: Remaining debt obligations.

Liability Insurance: This insurance covers you against "third party claims" in which a person may be injured on your property, and your carrier compensates that person directly.

Lien: A claim against a property, usually in the form of a prior mortgage or other debt obligation.

Loan Officer: A person who initiates the loan process through locating and uniting prospective borrowers and lenders.

Loan-To-Value Ratio (LTV): The ratio of the fair market value of the property to the outstanding debt owed for a mortgage on that property.

Mortgage: A contractual and financial relationship whereby a borrower secures funds from a lender to purchase a property and uses that property to secure the loan.

Mortgage Banker: A person or entity providing primary or secondary mortgages.

Mortgage Broker: A person or organization that unites borrowers/buyers and mortgage bankers.

Mortgagee: The lender in a property purchase.

Mortgage Insurance: An insurance policy that covers the mortgagor in the event of a default.

Mortgagor: The borrower in a property purchase.

Notice Of Default: Written document from a lender that the borrower defaulted.

Original Principal Balance: The loan amount at the time of closing/settlement.

Pre-Approval: Receiving approval for only a certain amount at a certain interest rate when applying for a mortgage before the prospective buyer has settled on a property.

Pre-Qualification: A written statement from a loan officer or lender explaining that the borrower will most likely be able to secure a mortgage loan.

Principal: Outstanding debt still remaining on a mortgage, not including interest, fees, etc.

Principal, Interest, Taxes, And Insurance (PITI): The usual parts of a mortgage payment.

Purchase Agreement: A contract signed by the buyer and seller agreeing on the terms of the sale.

Qualifying Ratios: The first of these two ratios is the ratio of the borrower's monthly debt to monthly income, and the other is the borrower's monthly housing fees to monthly income. Both help to assess the borrower's credit-worthiness.

Realtor: A licensed property professional who belongs to the National Association of Realtors.

Recording: The official, formal filing of a real estate transaction with the recorder or other appropriate governmental entity in your jurisdiction.

Right of First Refusal: A contractual agreement guaranteeing one party the opportunity to make a bona fide offer on real estate before others' offers are considered.

Second Mortgage: A loan taken after a primary mortgage already exists for the same property.

Stated Assets (No Asset Verification): Assets are listed on the loan application but are not verified with account statements or pay stubs.

Stated Income (No Income Verification): Income is listed on the loan application without documentary evidence, such as tax returns, account statements, or pay stubs.

Tenancy In Common: Two or more people hold the title to a property without the right of survivorship, so the deceased person's ownership interest can be sold, willed, or mortgaged to someone besides the remaining persons on the title.

Title: A written document that acts as proof of ownership.

Title (Insurance) Company: Performs the research necessary to certify that a property is free and clear of liens and other encumbrances.

Title Insurance: An insurance policy that covers a home-owner in case a claim arises in which someone asserts ownership rights or a lien on the property.

Title Search: The research process in which the title company certifies that no outstanding liens, mortgages, or other encumbrances exist on a property.

Walk-Through Inspection: A review of the property in which an appraiser starts to determine the fair market value of the home. This term can also apply to the process of examining a property prior to a real estate transaction to determine if damage or defects exist.

Warranty: A formal assurance through an affidavit or other sworn or contractual instrument that promises a certain condition of a property.

Appendix B: Home Maintenance Guide and Checklist

Overall Home Health

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- ▶ Complete a full home inspection by a qualified, licensed home inspector before you buy and before signing any final paperwork.
 - ▶ Prioritize and budget your repairs and maintenance depending on the results of the home inspection.

Heating

- ▶ Set your hot water heater to 120 degrees Fahrenheit.
- ▶ Service your water heater regularly to prevent leaks.
- ▶ Invest in a service warranty to cover the costs of repairs or replacement of the hot water heater through the manufacturer or retailer.
- ▶ Service your furnace with a professional to avoid toxic carbon monoxide fumes (two years for a gas furnace; once a year for an oil or electric furnace).

- ▶ Change the filter in your furnace as required by the manufacturer. If you're unsure of manufacturer guidelines, change the filter each season at a minimum.
- If you have any doubts, locate a heating contractor to detect any problems such as separations in the piping and other issues that could affect efficiency and safety.
- ▶ Know the location of the emergency shut-off switch for your heating system.

Safety and Preventing Hazards

- ▶ Install smoke and carbon monoxide detectors.
- ▶ Check the batteries and provide upkeep to your detectors as per the instructions for your model.
- ▶ Check Consumer Reports to get the low-down on the best models of smoke and carbon monoxide alarms.
- ▶ Consider a moisture meter for basements and areas prone to flooding.
- ▶ Keep your detectors free of webs and dust as de-bris can compromise their functioning.
- ▶ Inspect the ventilation filters for your range every month and replace as needed.
- ▶ Check the dates and functionality of your fire extinguisher.
- ▶ Keep an eye on railings and handles that are loose.

Vents, Ducts, and Chimney

- ▶ Clean and vacuum all vents and ducts to avoid pumping mold, spores, dust, and other (potentially toxic) allergens throughout your home.
- ▶ If necessary, invest in a HEPATM filtering system in your heating and air conditioning systems and in your vacuum cleaner.
- ▶ If you suspect a mold problem in your home, you should call a mold removal professional and the issuer of your homeowner's insurance policy.
- ▶ Check the vents and ducts regularly for evidence of pests, such as nests.
- ▶ Sweep your chimney consistently and thoroughly to avoid carbon monoxide poisoning.
- ▶ Never let the chimney soot grow thicker than 1/4 of an inch in the flue.
- ▶ Consider investing in a grid that prevents small animals from becoming lodged in the chimney.
- ▶ Make sure that the chimney structure is intact and not suffering from deteriorating brick, mortar, or other materials.
- ▶ Vacuum the grilles on back of refrigerators and freezers.

Electricity

- ▶ Know where your main electrical breaker or disconnect is.
- ▶ Label each circuit in your electrical panel box.
- ▶ Call a licensed electrician if you suspect anything problematic with your electrical system, fuse box, or any specific wiring in the house.
- ▶ You should call an electrician if your circuit breaker trips often or the fuses blow frequently. Know the location of the main shut-off valve for your water and of the emergency shut-off switch for your heating system.
- ▶ Plug unused sockets with child-proof shields if there are children in the house.

Water and Sewage

- ▶ Test your water - well water quality should be tested every six months for contaminants.
- ▶ Check your sump pump so that it is functioning before you need it.
- ▶ Septic tanks must be pumped out every 3 years.
- ▶ Fix dripping faucets and remove hard-water build-up.
- ▶ Make sure the shut-off valves for your plumbing actually work.

Climate Control

- ▶ Check that the insulation and ventilation in your attic, crawl spaces, and exterior walls are up to par.
- ▶ Check for any leaks in walls and floors that could lead to loss of heat.

- ▶ Help windows and doors with weather stripping, caulking, glazing putty, and the like to prevent the cold from slipping in.
- ▶ Change the filters on your heat pump and AC unit at least three times a year.
- ▶ Consider an annual service and maintenance agreement for your heat pump and AC unit for ongoing check-ups and monitoring.
- ▶ Make sure that your entry and exit doors have sweeps installed to prevent air from entering or escaping your home.
- ▶ Keep the thermostat set at 68 degrees in the winter and 72 in the summer to reduce your heating/cooling costs.
- ▶ Consider ceiling fans to circulate air.
- ▶ Consider installing a self-closing device on doors.
- ▶ Observe moisture accumulation in your home and buy a dehumidifier or humidifier.

Exterior Maintenance

- ▶ Repair cracks and/or warping on walls, siding, the sidewalk, and your driveway before the ground freezes.
- ▶ Move your compost, dirt, and leaf piles away from your home to prevent staining on the siding and easy access for termites and other pests into your house.
- ▶ Make sure screens in doors and windows are in-tact or patched properly.
- ▶ Buy snow supplies (shovels, rock salt, oil and fuel for the snow blower) more cheaply before the season hits.
- ▶ Regularly paint and/or seal your wood, siding, and other finishes.
- ▶ Examine the slope of your yard to see if water drains toward your home; if so, you may need to dig some gutters or perform other creative landscaping to redirect the water away from your home's foundational walls.
- ▶ Make sure the gutters and downspouts are cleaned regularly and aligned properly with your home.
- ▶ Either store your air conditioner or put a weather-proof cover on it.
- ▶ Prep garden, shrubs, and trees for the cold in cool climates by adding a thick layer of mulch or straw.
- ▶ Clean and store your grill, outdoor toys, and patio furniture before the winter hits.
- ▶ Check both inside the home and outside to see evidence of leaks in your roof.
- ▶ Look for missing, loose, or otherwise defective shingles.
- ▶ Check the flashing around the vents, skylights, chimney, and other parts of your house that intersect with the roof for leakage.
- ▶ Remove vines, mold, tree limbs and other foliage that could do damage to roofing and siding.
- ▶ Unless you use your outside water lines during the winter, shut them off after draining them to avoid problems from broken pipes.
- ▶ If you don't shut off the outside water lines, be sure to insulate the spigots so that they don't freeze. Home improvement stores sell insulated warming wraps for pipes that can be installed and plugged in to keep pipes routinely warm in winter. Check if your faucets need new washers.
- ▶ Check all outdoor electrical cords for frays and signs of wear.
- ▶ Treat your lawn and the perimeter of your home regularly for pests and termites. Spreading pest control granules around the foundation on the exterior of your home can help prevent you from having indoor pest problems as well.

These materials do not constitute legal, compliance, financial, tax, accounting, or related advice. The end user of this information should therefore use the contents of this program and the materials as a general guideline and not as the ultimate source of current information and when appropriate the user should consult their own legal, accounting or other advisors. Any case studies, examples, or illustrations cannot guarantee that the user will achieve similar results. In fact, your results may vary significantly and factors such as your market, personal effort and many other circumstances may and will cause results to vary.

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