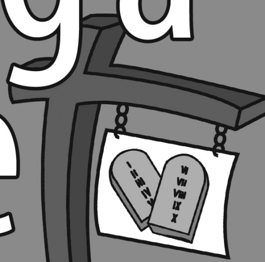
THE 10 COMMANDMENTS OF Buying a House



TAMERA ROUFF, REALTOR®
and BOB BURRIS

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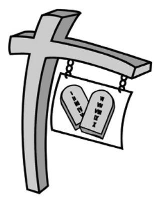
Welcome

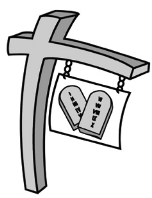


When we decided to write this series of “The Ten Commandments” books, it occurred to us that many so-called “self-help” manuals weren’t really helpful at all. True, they may contain nuggets of useful information—but often you have to spend too much time in the mine to strike gold. Similarly, you could devote years attending college or graduate school and still not come away with practical knowledge that you can put to work immediately.

“The Ten Commandments” series solves that. We’ve stripped away all the theories, the filler, the fat. What remains is a valuable tool—all the powerful information you need, and just the information you need, in a practical, easy-to-use format that you’ll refer to time and time again. Don’t let the short chapters fool you; each is jam-packed with insights that could only come from somebody with decades of experience on the "inside." Like any good coach, we know when to pat you on the back, and when to give you a good kick in the rear.

Fast, fun, easy to read, "The Ten Commandments" will inspire and motivate you to get up, get moving, and make your mark in your chosen field.

The Ten Commandments of Buying a House



To begin with, you don't need this book to buy a house. Buying a house is incredibly easy. If you've got enough money (or a sufficiently creative accountant), you can drive the streets, find a house that suits your fancy, pay the seller what they're asking, fill out a few forms, wait 30 to 60 days, and voila! Instant homeowner. Of course, you might have overpaid by tens of thousands of dollars, or purchased a money pit that will bleed you dry emotionally and financially, or wound up liable for pre-existing conditions you weren't aware of, while perhaps completely missing out on your dream house that might literally have been right around the corner.

It's true—you don't need to read this book or any other to buy a house. However, if you want to find the right house, in wonderful shape at a great price, in the perfect neighborhood for you, then congratulations, you've come to the right place. *The Ten Commandments of Buying a House* will tell you everything you need to know to make an informed purchase of a beautiful home. These simple, practical "commandments" are laid out in a step-by-step format, taking you from shopping to loan qualifying to moving day. But don't let the format restrict you. Jump from topic to topic as your interest moves you. You're buying a house! It's going to be fun. And it's going to be all the more enjoyable because by the time you finish this book, you're going to be a home-buying expert!

The Ten Commandments of Buying a House

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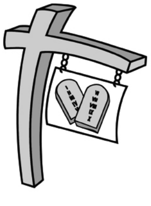

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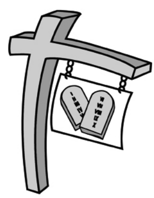
COMMANDMENT

I

Thou Shalt Not Buy a House

(Unless You're Sure You're Ready)



Home ownership. White picket fence, swing on the front porch, two cars in the garage, and a chicken in the pot. Or do the cars go in the pot and the chicken in the garage? All kidding aside, we're talking about the American Dream here. But for some, the dream can turn into a nightmare. As you consider making what will almost certainly be the largest financial commitment of your life, you must take a long look at yourself and your circumstances and ask, is buying a house really for me?

Finances

The first question is, can you really afford to buy?

Brochures and sales agents don't mention this, but owning your own home can be a major pain. Homes are expensive to purchase. They require constant upkeep and maintenance. (You don't really want to be that house on the street with 3-foot-high weeds and a rusted car chassis in the front yard, do you?) You'll spend a lot of your free time and money just keeping the place up and running. Houses cost money to furnish and decorate.

"But I've always heard owning is better than renting. Even if I am a little strapped for cash, buying a house is a great investment, right?" Yes, housing is historically a good investment, but there are no guarantees. If you do buy, can you commit to staying for at least four to five years? Remember, it's not just your down payment and monthly mortgage payments you're parting with. There are many fees to be paid when you buy or sell. If the real-estate market is hot and home values are consistently rising, you won't have anything to worry about, but if appreciation is slow or flat, you might lose some serious coin if you move after only a year or two. Sometimes houses are hard to sell, even if they're priced well. In super-cold markets, a house can go "upside down," meaning the owners owe more to the lender than they could sell the house for. Yikes.

Lifestyle

Many people prefer renting. To them, the enticement of a mortgage deduction pales in comparison to spending their weekends fixing toilets and pulling weeds. Renters have much more flexibility when it comes to relocating. And they don't have to pay property tax, homeowner fees, trash collection fees, and many other utilities!

If you're the pioneering, "do-it-yourself" type, do you want to buy an existing structure? Would you be happier buying land and building your own home to your own specifications? A lot of people are.

Pretty sobering stuff. Are there any good reasons for owning your own home? Only about a billion and a half. But since we'd like you to finish this book and be in your home before you're on Social Security, we'll just hit the main ones.

Investment

Buying your own home will probably be the best investment you ever make.

Buying your own home will probably be the best investment you ever make. In good times, it's not unreasonable to expect a home to increase in value 5% a year. Sometimes it's a heckuva lot more than that, sometimes less, but that's a pretty good average. Break out a calculator and you'll find that over a five-year span, a \$200,000 home will increase in value to approximately \$261,925! Figuring that you have a loan balance of around $150,000—in five years the $40,000 you put down has grown to nearly $100,000! Most of us would take that over the stock market any day! Not to mention that you've got a new business partner in your Uncle Sam, who's allowing you to deduct your mortgage interest and property tax every year. But there's more.

The Pursuit of Happiness

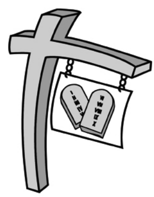
There are few human urges stronger than the desire to own the roofs over our heads. Not to mention the walls holding those roofs up. Many of our happiest memories are centered in the home.

So. Is buying a home for you at this point in your life? After reading this first "commandment," if your answer is "no," aren't you glad you read this book? And if your answer is "yes," well, the fun is just beginning!

COMMANDMENT

II

Thou Shalt Do Thy Homework



Reading this book is an excellent start.

Information is power. The more you know, the more you'll be in control and the less you will be at the mercy of the marketplace. As you begin the process of shopping for a home, people will start throwing terms around that you may have little or no understanding of. By the time you finish reading this book, you will be familiar with all of them. And a good Realtor will be an enormous asset in guiding you through the process (more on that later). But you are your own best advocate. Even the greatest Realtor won't look after your interests the way you will. Talk to friends and relatives who've been through the wars. Ask them about their horror stories (and triumphs). Read articles and books on the subject. Why take the chance of losing major money on a deal because you didn't want to take the time or spend a couple of bucks to become better educated?

Many real estate books and experts recommend making "the list." Get a blank piece of paper and draw a line down the middle. On one side, list all of the advantages of buying a home. Then list all the disadvantages on the other. This will help in two ways. First, it will help clarify whether or not this is the best time for you to buy a home. Second, if you end up buying a home and buyer's remorse sets in, the list will remind you of the reasons you decided to buy in the first place.

One of the first questions buyers have is, "Is this a good time to buy?" The simplest answer is if you're ready to buy a house, then yes, it's a good time to buy. Beyond that, the answer gets a little trickier. Real estate is an evolving, cyclical commodity. A house is worth whatever the market will bear. Obviously, everyone would like to buy low and sell high. The problem is that timing the market ain't easy—for the simple reason that nobody has a crystal ball (at least nobody you want to take financial advice from). If prices are dropping, will waiting six months yield an even better bargain? Or will things turn around, and the same house cost $50,000 more by the time you make your move? No one, not even the "experts," can say for sure.

Luckily, the state of the market is quite often a nonissue. If you currently own a home and are looking to "buy up," you're riding the tide with the market. If prices are falling, you'll get less for your current residence, but end up getting a steal on your new home. Conversely, if the market is "hot," you'll be thrilled at the sales price on your existing home, but you'll be in for a severe case of sticker-shock on your new one.

Trying to time the market is a strategy best left for the first-time buyer. Unless you have a pressing need to buy immediately, you have flexibility. A good Realtor will give you an accurate assessment of the market. If they feel that prices are dropping, they will certainly share this information with you. On the other hand, if prices are rising, they will no doubt strongly advise you to begin shopping immediately. You won't have to take this on faith. They will provide data to support their opinion. Besides, you've taken the time to do your homework, remember? The state of the real-estate market isn't a secret. There are articles in newspapers, Internet blurbs, magazine pieces, and reports on television every day. You'll know what's going on. And if you don't, find out!

The second most-asked question is, "How much should I be looking to spend?" The answer is, as much as you can possibly afford. As we've already discussed, the odds are overwhelming that your investment will appreciate over time (particularly if you're planning to stay in the home for a while). The more you spend (wisely), the nicer home you will get, the better your lifestyle, and the more lucrative your investment. So how do you know how much you can afford?

Most experts agree that your monthly housing costs should be 28% of your income (before taxes). We're not talking about your monthly payment here. Remember to include the

Spend as much as you can possibly afford.

cost of property taxes and insurance. If you already owe significant money, such as credit card balances or other loans, those debts plus your monthly housing costs shouldn't be greater than 35 to 38% of your gross monthly income.

How much down payment (in cash) will you need? As much as 20% of your new home's purchase price. Yes, you've seen ads for 10% or 3% or even 0% down. You can make deals to put down less, but remember you'll pay fees to do this and your monthly mortgage payments will be significantly higher.

	Interest Rate			
DOWN	5 1/2%	6%	6 1/2%	7%
5%	$1,081.10	$1,140.00	$1,202.70	$1,263.50
10%	$1,024.20	$1,080.00	$1,139.40	$1,197.00
15%	$967.30	$1,020.00	$1,076.10	$1,130.50
20%	$910.40	$960.00	$1,012.80	$1,064.00

Estimated mortgage payment based on 30-year loan on $200,000 house.

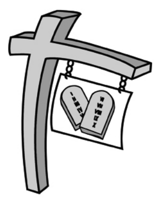
After you've done these calculations, check the real-estate ads in the areas you'd like to live in. Are there homes available in your comfort range? If so, full speed ahead. If not, you're going to have to wait until you have more money, or consider living elsewhere.

The important thing is to know what you're doing and be clear about what you can afford before you start. Your confidence and knowledge will serve you well.

COMMANDMENT

III

Thou Shalt Become Approved for a Loan Before You Shop



Is all this money talk making your head spin? You're a homebuyer, not a mortgage-broker-in-training, right? Relax, we're almost done. And knowing as much as you can about the "business" of homebuying is only going to save you money. All pre-approval means is that rather than waiting until you've found the perfect home and then hoping you'll get the loan to buy it, you set up your loan first. This is a smart move for several reasons:

1. You'll find out exactly how much a lender is willing to give you.

2. Being pre-approved will make you extremely attractive to sellers.
3. By taking care of this before the pressure is on, you will be sure that you are getting the best deal possible on your loan.

Being pre-approved will make you extremely attractive to sellers

Let's say you decide to start shopping without pre-approval. The first day out, you find the home of your dreams. Everything you want at a price you can afford. Now you might be lucky. The stars may line up for you. The seller might instantly accept your offer, you might find a great loan with no delays, and 30 to 45 days later you find yourself accepting the keys to your new home. Or…problems might develop. Problems that can all be solved by pre-approval. Problems such as:

Multiple Offers

Let's say you're not the only person who thinks they've found their dream home. In fact, there are several of you. Assuming that all parties have offered roughly the same amount, whose offer is the seller going to accept? "Contingencies" are items that a buyer includes in an offer on which the deal hinges. For example, an offer might be "contingent" on the buyer's ability to sell his or her current home, or more to the point, "contingent" upon his or her ability to secure financing. If you're a seller, and you've got two (or more) equal offers, but one buyer has already been approved for a loan and the other hasn't…. Well, which offer would you accept?

A Problem With Your Credit History

You've applied for your loan, and then it happens. It might even be a mistake in your credit report, but something unexpectedly hangs up your application. Hopefully, it's something you can clear up quickly, but if not, the whole deal could fall apart. There goes your dream house because of some mistake some computer made somewhere. Pre-approval will eliminate any bad surprises. It will also give you time to correct legitimate credit problems that require your attention.

The Heat Is On, and Before You Know It, You've Paid Much More for Your Loan Than You Had To

The market is hot and your agent says you must make an offer immediately. This is sound advice, because in a healthy market, delays of even hours can cost you the house you really want. Flushed with excitement, head dizzy from the speed of it all, you start writing an offer. But wait, where are you going to get your loan? You've never done this before, you don't even know where to start. Well, it so happens, there's a mortgage broker the agent has worked with before. Maybe right in the office. All for your "convenience." So you sign up and they get you a loan and it's only after the deal has closed that you learn, with a little shopping around, you could've gotten a better rate and paid fewer fees. Something that could have saved you thousands of dollars. Something you'd know if you'd gotten pre-approved.

What does it take to get pre-approved? Obviously you'll need to contact some banks and mortgage companies. To educate yourself, check rates on the Internet, but you can usually get a better deal elsewhere. Interest rates are published in the newspaper.

Ultimately, you might choose to work with a mortgage broker who will research the loan market and present various options to you (for a fee). Many brokers' rates are quite reasonable. Whether you work directly with a lender (bank, credit union, private party, etc.) or use a mortgage broker, you will want to ask them certain questions; such as: Do they offer both fixed and adjustable-rate loans? (More on this in a minute.) Is mortgage insurance required? Are there prepayment penalties? What are the total fees you will be charged at closing (points, appraisal, searches, and reports—also known as a good faith estimate)?

The broker or lender will help you assemble the financial data you'll need to be approved for a loan. He or she will be interested in your assets, such as checking and savings account balances, other investments like money market funds, CDs, and stocks, as well as your liabilities (outstanding debt loans, credit card balances, auto loans, alimony, etc.).

After you've been pre-approved, don't do anything that might change your financial profile in the eyes of the lender. This includes making a major purchase, shifting money between accounts, or taking a lower-paying job.

Here are some terms you will encounter as you deal with lending institutions and brokers:

Down Payment

The money that is your initial investment in the home. It cannot be borrowed (excluding family gifts). Can be as high as 20% of the purchase price, but 10%, 3%, and even 0% down payments are available—for a price.

Points

A percentage of the loan amount the lending institution or broker is charging for securing your loan. One point = one percentage point. Points are negotiable. It is quite common to get a lower interest rate by paying more points to the lender.

Term

The length of a loan. Usually 30 years, although 15-year mortgages are becoming more popular as you will save thousands of dollars by repaying the loan more quickly. However, because of this your monthly payments will be much higher. A great option if you can afford it.

Fixed Interest Rate

The loan rate you lock in will not change throughout the term of the loan. If this is a home you're planning to stay in for a long time, the security and stability of a fixed rate probably makes sense. If rates drop significantly, you can always refinance down the road. You will get a lower rate, but you will pay points and fees again.

Adjustable Rate, or ARM

A lower rate, initially, than a fixed rate, but can move up or down during the term of the loan. Tied to the rate of Treasury Bills or the 11th District Cost of Funds. Usually there is an upward “cap,” a top percentage over which it cannot rise. There are also restrictions to how much the rate can increase or decrease within a single year. Sometimes lenders will offer you an incredibly low “teaser” rate. Be sure you understand how long the teaser rate will last, and how quickly your interest rate will rise. If you’re not planning to be in your home for a long time, the lower rates of an ARM may make sense.

Federal Housing Administration (FHA) Loans

Loans made available by Uncle Sam for the purchase of moderately priced homes. The Federal Housing Administration will insure a mortgage on a house for up to 97 percent of the property value. Down payments on FHA mortgages are low and the loans are assumable. Your lender will know if you are eligible for an FHA loan.

VA Loans

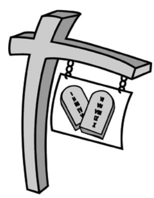
Low-cost money available to veterans of the Armed Forces, which may be used to buy, refinance, construct, or repair a house. If you’re a veteran, you’ll want to check this out.

Had enough? The good news is, we're almost to the fun part. The better news is, even though taking care of all this loan stuff is work, it's a vital step toward getting your dream home at a dream price. Your time is well spent—the difference of even fractions of a percent can mean hundreds of thousands of dollars over the life of a loan.

COMMANDMENT

IV

Thou Shalt Work With a Professional Realtor



It's fun to look at the real-estate section in the newspaper, surf the Internet, or drive around neighborhoods looking at open houses, seeing what's available. In fact, it's an important part of your learning curve. However, when you get serious, hire a Realtor.

Hire is actually a misnomer, because as a buyer you won't have to pay a thing for a Realtor's services. Their fees come from the seller, which is an important fact to remember. Even though they're working with you, they are on the seller's payroll. This doesn't mean they don't have your best interests at heart; in fact, they have a fiduciary responsibility in this regard. The laws differ from state to state. Some states allow "buyers' agents," who work exclusively on your behalf. Still, their primary interest is in closing a deal. Which is why it's important to take these "commandments" to heart and do your homework. So that you are an informed buyer who won't be pressured to buy until you've found the house you really want.

The right agent is an essential part of your team.

It's easy to pick up a Realtor "by accident." One of the primary reasons Realtors hold open houses is not to display the home, but to pick up new clients from people who stop by to take a look. This can work out fine, but remember you're about to embark on an enterprise that will see you spending hundreds of thousands of dollars. Doesn't it make sense to find a Realtor who's a perfect fit for you—one who works the neighborhood you're looking in—rather than the first person you meet? Or worse, hiring your dentist's uncle's sister's brother who's in sales but happens to dabble in real estate on the side?

Drive the streets, look at ads and signs in your desired area. Write down the names that appear the most and schedule interviews with them. Meet at least three to five agents. Ask them for the names of recent clients. Talk to those people and consider their references carefully. Be direct with the agents about how much you want to spend. Get a feel for who seems to best understand your needs. Pick someone you like personally. You could be working with him or her for a period of months, and you want it to be a pleasant experience.

There are specifics you'll want to ask: How long have they been in residential real estate? Do they do it full-time? Do they have a personal assistant in case they happen to be unavailable? How will they help you define and narrow your choices? Why are they the best choice to be your Realtor?

There are a few questions you'll want to ask yourself: Which of the Realtors you've met seemed like the best fit for you? Did you communicate well? Did he or she seem hard working and committed?

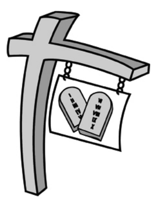
The right agent is an essential part of your team. He or she will be aware of new listings as soon as they come out. He or she will know which houses are worth taking a look at and which are a waste of your time. In short, an outstanding Realtor is an asset to be valued. Take your time to make sure you get one.

As a footnote, in some states a real estate attorney is a vital and required part of your team. In other states, no one uses an attorney for a standard residential transaction. Be sure to find out from your Realtor or friends and relatives what the situation is where you are planning to buy.

COMMANDMENT

V

Thou Shalt Take Thy Uncle Bernie House Hunting With You



Finally! Time to go shopping for your new house. You've done your homework, so you know which neighborhoods you like and fit your budget; the lender has told you how much you can spend; and you've got an energetic Realtor ready to go to work. You've got a lot of fun ahead of you. And it will be even more fun if you remember to "buy the house you want." Emotions can run away with you. Don't forget to be realistic and practical. Remember what you set out to buy.

Buying a home brings both logic and emotion into play. While it is unwise to buy a home purely on your feelings, it is equally unwise to buy a home strictly as a business deal. Buying a home is equal parts art and science. It is very difficult to find a house that meets all of your criteria. Buying a home almost always involves a trade-off. It might be in a gorgeous neighborhood that is a longer commute than you want. It might have a "park-like" backyard and a "cracker-box-like" kitchen. Don't settle, but be realistic. If a house sweeps you off your feet, take a breath and be sure your emotions aren't clouding your business logic. If the house is a great deal, but your heart sinks when you consider living there—move on.

Buying a home is equal parts art and science.

It's been a while; let's make another list. In fact, two: one of "musts" for your new home, one of "wishes."

Your "must" list will include price range, minimum number of bedrooms and bathrooms, yard size, one- or two-story, ranch or contemporary, whether or not you must have a swimming pool or fireplace, etc. Defining your price range is critical. You might find a great house that's less than you planned to spend. More likely you'll find one that's "only" $20,000 or $50,000 more than you had in mind. Step back and be realistic. Is it a good value at the price, or are you just tempted to pay more because you've fallen in love with a place that's already tricked out? There's an old adage that you "make more money buying a house than you do selling one." The better deal you make now, the more you'll make when you sell.

Your "wish" list is of things you'd love to have, but they aren't deal-breakers in and of themselves.

Try to buy in a neighborhood that's got great schools, even if you don't have kids. Many areas are desirable (and profitable) based solely on the reputation of the local schools.

Obviously, a home's cosmetic condition will be one of the first things to make an impression on you. It makes great sense to "buy the worst house in the best neighborhood," but not if you aren't fully committed to doing what it will take to spruce it up. Most people's burst of enthusiasm for fixing up a home lasts about six months. After that, renovations start to happen at a much slower rate.

Unfortunately, you'll probably have less time to inspect a prospective home than you would to check out a new car. Crazy but true. That means you have to become adept at assessing a home's condition quickly.

Structure

Check floors and walls for water damage and warping. Make sure all doors and windows freely open and close. Outside, look for standing puddles of water and ask about drainage. Check exterior walls for standing water damage. Check the condition of the roof.

Electrical

Look for frayed or exposed wiring. Flip wall switches and make sure they work. If you feel like being particularly thorough, randomly check some outlets with a voltage reader. Make sure the electrical box outside is in good condition.

Plumbing

Check bathroom floors and walls for signs of water damage or warping. Look under sinks and behind toilets for signs of visible corrosion. Be sure to check for corrosion on pipes leading to and from the water heater. In the bathroom, turn on all the faucets and flush the toilet. Check to see that the water pressure maintains a strong flow.

Heating and Air Conditioning

Turn the thermostat on and check vents to make sure that air is flowing. Outside, check to see that the air conditioning units are in good condition. Remember, if it's cold outside, cold air out of the vents doesn't mean the AC is properly functioning.

Appliances

Turn on stove and oven and check for any gas odors. Let the dishwasher run a cycle and watch for leaks, etc.

Bring along a camera so you can re-evaluate your impressions later, from a calmer perspective. If a place is professionally decorated, don't forget, all that great stuff is leaving on moving day. Conversely, don't be thrown if a house has good "bones" but isn't up to your standards cosmetically.

Look past furnishings and decoration, good and bad. Imagine each room empty or with your furniture in it.

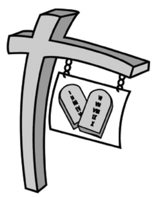
So what does any of this have to do with your Uncle Bernie? Who is Uncle Bernie anyway? How come there's a "commandment" named after him? C'mon now, we all have an Uncle Bernie. That relative or friend who's great with people and can strike up a conversation with anyone, anywhere? Who can meet a stranger and within five minutes they're sharing life-long secrets? That's right, Uncle Bernie. Aunt Sue. Your buddy Dave. You know who I'm talking about. Invite him or her to go house hunting with you. In no time they'll be chatting with neighbors about local schools, neighborhood noise, area traffic patterns, etc. Things you'd never think to ask, but are as valuable as knowing price per square foot and sales comps.

Remember, this is art and science. Listen to your heart…and use your head.

COMMANDMENT

VI

Thou Shalt Offer a Fair Price



You did it! After several weeks of pounding the pavement, you found a great house, it's in your budget, and it even has that front porch swing and built-in trampoline from your "wish" list! Uh-oh, this thing could actually happen. Gulp. Now comes nervous time. Making a solid offer.

The question on your mind is, "How much should I offer?" A lot less? A little less? Full price? More than full price?

Many buyers wonder why they shouldn't open with an extreme "low-ball" offer just to see what happens. (By the way, some sellers use this same thinking to open their house $100,000 above market. They usually end up regretting it, too.) Making a low-ball offer is an acceptable strategy if you don't mind losing the house, or if the market is very cold, or if the house has been on the market a long time, or if at some point in your life a bowling ball was dropped on your head. Otherwise, like over-pricing your house, it's not a very good idea. Here's why:

If it's a warm-to-hot market, you don't stand a prayer anyway, and you're just wasting everybody's time. If it's a normal market and the house is reasonably priced, more than likely you're just going to tick off the seller, who will then be more disposed to accept somebody else's serious offer, even if you come back with a decent offer. A better strategy is to determine a sales price that's within your budget and will be perceived as fair by the seller.

The amount of your offer will be determined primarily by one thing:

Comparable Sales (Comps)

Your agent will have a detailed list of similar homes in the area that have sold and what the final sales price was. Immediately, you'll get a feeling as to whether properties are selling at or below the asking price. A further analysis of these sold homes will determine what condition they were in and what additions or improvements might have affected the sales price. If you're buying in a tract of similar or identical floor plans, you'll probably be able to find numbers on the exact same model. A Realtor will know what "price per square foot" comparable homes have been selling for. If homes have been selling at asking price, then you should plan on offering at least the same. If homes have been selling at, say, 5% below asking price, then your Realtor might counsel you to make an initial offer at 7 to 9% below the home's posted price.

Since you're familiar with the home you're considering making an offer on, you will be a pretty good judge of how its condition compares to recent sales. Generally speaking, swimming pools and views don't add enormous value to a home. Why? Because while some people may only want a home with a pool, others consider them to be a nuisance and liability. Same with views. Since future buyers may not want to pay you more for these features, you shouldn't be willing to pay the current owner an inflated price for them. Flooring and kitchen upgrades and other structural improvements often increase the value of a home, particularly additions and remodels, primarily because they usually increase the square footage of a home. Since values are computed by price per square foot —well, you get the idea. (By the way, ask to see permits for additions and remodels. You'd be surprised how many are built on the sly.)

It's the moment of truth — time to write an offer.

And now it's the moment of truth. Time to write an offer. Your Realtor will be your guide in this. First, you need to realistically assess your strength or "leverage" in the situation. In a hot market, the seller holds the cards, and your offer should be at or very near the maximum amount you are willing to pay. Why? Because you may only have one shot at winning the house. In a cooler environment, you have greater strength. Your opening bid can and should be less than the secret amount you're ultimately willing to pay—but not an insulting, counter-productive low-ball!

You and your Realtor will fill out a sales contract. You will include the price you are willing to pay plus other information. One couple revealed their successful trick of never offering the seller a round figure. Add a thousand or two to your offer. Over the course of a 30-year mortgage, you're talking about pennies. And if you were the seller, what grabs your attention and sounds more attractive: $300,000 or $302,000?

You will spell out any contingencies that you want to place on the deal. You will also inform the seller how large your down payment will be, how you will finance the balance of the payment (or if you're making a full cash offer), any inspections you'd like performed, personal property to be included (chandeliers, rugs, pieces of furniture, etc.), the length of the escrow period (a determined period of time during which inspections are made, forms filed, loans acquired), cancellation terms, any desired repairs, and how disputes will be settled.

In some states, sellers are legally required to make disclosures about the house that might affect your offer (the neighbor uses his backyard for a firing range, a community of rattlesnakes lives in the bushes, leaky windows, the house is in an airport landing zone, etc.). If you live in a state where such disclosures aren't mandatory, make sure you require them in your offer.

You also will stipulate that the seller give you a house in good condition. At the close of escrow you don't want to find eight crates of Beta wildlife videos in your garage or learn that they've turned the backyard into a toxic waste dump. Your contract will also specify a "title search," which simply affirms that the seller is indeed the legal owner of the property and that there are no claims or liens against it.

You will also provide a deposit or "earnest money" with your offer. This is a display of financial commitment on your part to the seller that you are a serious buyer. If your offer is rejected or if the terms of the deal aren't met, you get your money back. If your offer is accepted and you back out of the deal without just cause (as spelled out specifically in the contract), the seller may get to keep it.

Sometimes buyers ask the seller to "carry back" a second mortgage on a home. In a nutshell, the seller acts as a second lender to help the buyer purchase the home. This works best when a) the buyer doesn't have the full down payment, and b) the seller doesn't need all the money from the sale to help finance his or her next move.

The typical arrangement is that the buyer puts 10% down, the seller "carries back" 10% (for a shorter term, typically five years) and the remaining 80% comes from a bank or other lending institution. If you don't have the full down payment, a "carry back" is a very viable option, particularly because a seller is more likely to lend you 10% than an institution would lend you 90%.

If you have or are getting a VA or FHA loan, you must inform the seller. This is because with government loans, the seller might be required to pay fees normally paid by the buyer. Also, appraisals for government loans are more detailed and therefore more expensive; again an expense incurred by the seller.

You and the seller must also agree on the services to be used (escrow company, title insurance company, termite inspection company). Some of these fees are paid by the seller, some by you, some are shared. In any event, it's in your best interest to propose which companies you'd like to use.

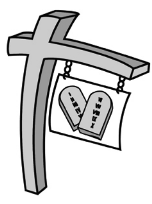
There will be "closing costs" once you have cleared all the hurdles and the deal is done. These are fairly standard and include recording fees, search fees, document preparation, notary services (Are your eyes rolling back in your head yet?), assorted lender charges, and whatever loan fees ("points") you agreed to pay your lender. These closing costs will total several thousand dollars. Be sure to have your agent explain them in detail so that you don't have any 11th hour surprises.

All right. You've put together a great offer, and off your agent goes to present it to the seller. Now what? You wait. You pace. You try to put it out of your mind, which you discover is impossible. But don't worry, you won't be twisting in the wind for too long. Sellers have a short, specified period of time in which they are required to formally respond to your offer. Sometimes your first offer is accepted. If this happens and both sides' contingencies are accepted, congratulations, you've just bought a home! (Although you're probably kicking yourself for not offering $10,000 less.) More often, the seller will come back to you with a counteroffer. Which leads us nicely to "commandment" number seven.

COMMANDMENT

VII

Thou Shalt Remember: Everything in Real Estate Is Negotiable



Things are getting serious now. You're in the hunt. The seller is considering one or more offers on his or her home. This is the time when emotions can run hot. Don't let yours. You've shopped while listening to your heart and intuition. Now it's time to step back and let logic and business sense take over. Don't forget, *everything in real estate is negotiable.*

Sometimes the seller's counteroffer will make only a few minor changes in your offer. Other times, you may seem

Everything in real estate is negotiable.

worlds apart. In either case, don't take it personally. You're in the midst of a negotiation here. If you get angry or offended, it will only cloud your judgment. Every Realtor has nightmare stories of deals that have fallen apart because a custom area rug wasn't included or that an offer was "insulting." What is this, high school? If you strenuously object to the seller's price or conditions, you will simply detail your response in your counter to their counter. Even if you discover the seller is the biggest jerk in the world, you're not negotiating for a new best friend here. You're buying a house. *Everything in real estate is negotiable.*

Usually the seller will counter with a higher price than you offered. You and your Realtor will have to decide if this price is fair. If not, counter back. You can even repeat your first offer if you feel good about it. You're not the only one who can be made to sweat here.

The counteroffer may seek to eliminate some of your contingencies. If this is the case, and none of the contingencies is vital to your offer, "streamline" your counteroffer. Eliminate all but the most important contingencies. One contingency to think twice (or even three times) about lifting is making your purchase contingent upon the sale of your existing home. Even if you can raise the down payment without selling your current dwelling, what if you can't sell your current house as quickly as you'd like? Are you in the position to pay two mortgages for an indeterminate amount of time?

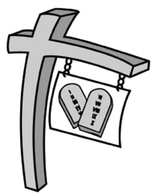
Your Realtor will be the point person in presenting your offers; in fact, you won't even be there. This helps to keep things moving forward in a business-like fashion. But don't forget that the agent exists to execute your bidding. You are the one calling the shots. Your agent is a skilled and experienced advisor, but this is your deal. Employ the qualities top business negotiators bring to the table. No matter how heated things may get, be open-minded, try to be objective and listen. Always be sure to simply ask for what you want. The worst the other person can say is no. Be a bit of a poker player. Other than letting the seller know your interest is sincere, don't reveal any desperation that you might be feeling. Be prepared for *anything* in the counteroffers. That way you'll usually be pleasantly surprised, and even if the counter is in some way outrageous, you won't be as prone to reacting emotionally.

You will know in a matter of a few days whether or not your bid for a home will be successful. If you miss, it's fine to be disappointed, but don't let it dampen your spirit. There's another great home out there waiting for you. And if your offer is accepted—welcome to the American Dream. See you in Home Depot. Every weekend.

COMMANDMENT

VIII

Thou Shalt Hire a Home Inspector



Well, you're almost home, all puns intended. But you're not quite there yet. Despite your own assessment of the home's condition, it is time to hire a professional home inspector to give the place the real once-over. The lender is going to require an appraisal of the property, but that's not what we're talking about. We said earlier that everything in real estate is negotiable. We lied. Hiring an inspector to give your prospective new house a thorough examination is absolutely mandatory. Making the home contingent on passing that inspection is *imperative*. There are two very good reasons for this.

Reason #1

No-brainer. Why would you spend a fortune without knowing that the place is in decent working order? For several hundred dollars you're going to hire someone who has worked in the construction/home repair business for years. He or she is going to crawl under the house, check the roof, and thoroughly inspect all heating/cooling/electrical systems, a dozen things you aren't even aware of. You're hiring the kind of person who can spot cover-ups, poorly done repairs—the type of person who can just smell trouble.

Making the home contingent on passing inspection is imperative.

You will agree with the seller on a certain period of time in which this inspection will occur. This is called the due diligence period. The number of days you have for due diligence varies from state to state. You will make the sale *contingent on the inspector's approval*. This is vital. If the inspection reveals a major problem, you can get out of the deal and keep your deposit. More than likely, the inspector will come back with a list of minor repairs that should be done but aren't necessarily critical. If any of these reveal conditions that aren't up to building code (at the time the house was originally built), the seller must rectify the situation. Otherwise, the list of repairs is negotiable. It might be anything from replacing electrical outlets to repairing a sticky window. The seller might agree to some, all, or none of these repairs. Again, as a negotiator, you will decide which of these proposed repairs are worth fighting over and which aren't.

Reason #2

The home inspection is your last chance to get out of the deal without losing your deposit/earnest money. This is not an action we encourage or endorse, however it is worth mentioning. BUT—if you develop a severe case of buyer's remorse (more than just garden variety cold feet) or your financial situation changes, or you simply decide that making this offer was a colossal mistake, you can state that some aspect of the home inspection has revealed a condition with which you simply cannot live. It had better be something pretty major or you can expect a fight with the seller over releasing your deposit. But if you've made your offer contingent on passing inspection (and you will!), ultimately the seller doesn't have much recourse.

Let's say the home inspection reveals nothing more than some peeling wallpaper and a leaky faucet. Even with this clean bill of house health, the purchase of a home warranty or "protection" plan is an outstanding idea. This is simply a service contract, which covers you for the cost of repairing or replacing a home's major systems (including appliances) that might break down over the course of a year from normal wear and tear. Often the seller will include such a plan in the purchase price. And it's not just because they're feeling generous. This type of coverage allays the worries of both buyer and seller about future breakdowns and calamities. Maintaining a home protection plan on your own dime after the first year is a very good idea. For several hundred dollars a year, you are protecting yourself from major repairs or service that could cost you thousands. Be sure to read the policy carefully so that you are aware of any exclusions to the coverage.

Your offer has been accepted. The inspector has told you your new home is in great shape, the title has cleared, your loan has been funded. You are a home owner. Wow.

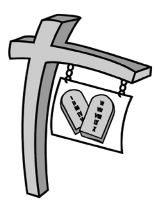
Just before closing date, take a final tour of your new house and yard to be sure that everything is okay. If you do discover problems, remedy them now, before the deal closes.

Next comes the final and perhaps most grueling aspect of buying a home. Moving all your junk.

COMMANDMENT

IX

Thou Shalt Decide if Three Strong Friends With a Rental Truck Is Really the Best Way to Move



We've all been there. Moving into our first apartment or dorm room. Your possessions included your CD collection, a used couch, some dishes, two armloads of clothes, a board and cinderblock shelving system, and some books (otherwise known as the "heavy box"). All it took to move was a friend with a pickup who owed you a favor, a couple of hours, and some pizzas and a six-pack to close the deal.

If you still don't have a lot of stuff, if you're feeling particularly industrious, or if you want to see if that bad back is really healed, moving yourself is a viable option. It'll be a heck of a lot cheaper than hiring professional movers, and who doesn't look forward to trying to wrestle a refrigerator up some stairs through a door with a quarter-inch to spare on either side? Seriously, moving yourself has its advantages. It also has its downsides. One, unless your friends are with the offensive line from the local high school football team, you've got to do all the heavy lifting yourself. Two, if there's an accident en route or your pal drops your priceless set of NFL helmet mugs, you'd better hope your homeowner's insurance (You do have homeowner's insurance, don't you?) covers it.

Professional movers are expensive. They're also experts. They will be liable for any damage that happens in transit. This does not mean that all moving companies are worthy of your business. Unfortunately, there are shady operators out there. A common dodge is a price bait and switch. Usually, before hiring a moving company you will have a representative come to your dwelling, survey your possessions and give you a bid. Unless you get a written guarantee, this bid price is not binding. So what happens? The estimator quotes you a great price. And then moving day comes and the movers look over your stuff and claim that the estimator underbid the job. He forgot about the stuff in the garage, or the attic, or didn't take into account the weight of your wall unit. It's now going to be several hundred dollars more than you were told. What are you going to do? It's moving day, the truck's here, and they've got you over a barrel.

Make sure the estimate is guaranteed and binding.

There are two ways to avoid this scenario. One we've already mentioned. Make sure that the estimate is guaranteed and binding. Don't just take the estimator's word for it. Second, remember that moving companies are under the regulation of the Public Utilities Commission. If a company tries the bait and switch and you can't fire them on the spot, notify them (and their supervisor) that you're going to go ahead with the move, but on Monday morning you plan to notify the state. Write this on all agreements you sign. Suddenly the price they quoted you won't seem so unreasonable to them after all.

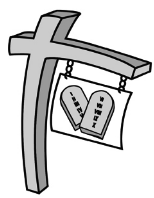
Shop for a moving company the way you would any contractor. Get several estimates, ask friends and neighbors for recommendations.

Remember to save your receipts, even if you rent a truck and move yourself. If your relocation is work-related, and you can document it, you might be looking at a write-off for your moving expenses.

COMMANDMENT

X

Thou Shalt Make Thy New House a Home



Well, Mr. or Ms. American Homeowner, you did it. Now it's time to set aside your "business" side, engage your heart and creativity, and start making your new house your home.

If you need to paint or replace flooring or even give the place a thorough cleaning, obviously this is more easily accomplished if the rooms are empty. You can temporarily store your belongings in the garage, or in one "storage" room. Jump right in and take care of these tasks first. Remember, your initial burst of enthusiasm and energy is going to last about six months. Things you don't take care of during this first honeymoon period might very well take years to complete.

During the weeks before moving day, sketch a game plan of what pieces of furniture are going to go where. Naturally this plan will evolve, but at least having an idea of where you want things to go will save you (or your muscular friends) from hauling furniture from room to room.

Before assuming ownership of your home, the seller gave you a final walk-through where they showed you how to operate sprinkler controls, lighting, security systems, etc. Make sure you fully understand how they work. If you don't, the sooner you call the seller, the better. After a week or two, they might start to regard you as a pain in the neck.

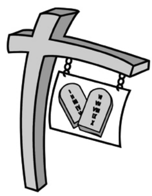
Many people like to get one room completely setup as soon as possible. You'll be surprised at the sense of completeness and satisfaction this will give you. It will be an oasis during the first few weeks as you fully settle in. Take care to keep empty boxes and junk out of this room.

If you have children, let them have a say in what color their room will be and where the bed should go. This will help them quickly adjust to their new dwelling.

As soon as you can, have a party! Your friends and family are dying to see your new home, and you will love showing it to them. They also might have helpful ideas and suggestions on decorating and landscaping.

And finally, enjoy. You did it! You're going to create great memories in your home. And by following these "commandments," you'll be filled with joy and satisfaction knowing that you did the job right.

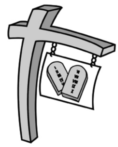
About the Authors



Tamera Rouff has worked for many years as a Realtor in Las Vegas, the fastest-growing housing market in the country, as an escrow coordinator, for one of the largest independent real estate brokers in the state. She has successfully closed thousands of residential real estate transactions.

Bob Burris is a professional writer living in Los Angeles.

Order Form



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