

Home Buyers Guide 2008

The Practical Guide to Buying a Home

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This book is an overview guide to the process of purchasing a home. No book can account for all possible situations you may face in a home or in a transaction. It will highlight and identify important topics and provide advice on handling issues. Ultimately, all decisions are yours and yours alone. No part of this book is meant to serve as legal advice and the laws of different jurisdictions vary and change over time. We recommend now and in the book that you consult with an attorney and/or tax advisor before proceeding forward with the purchase of a home.

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Look for important tips in this area throughout the book.

I. Introduction

So you're ready to buy a home! Whether you want to purchase a house, condominium, co-op or townhouse, it's a major undertaking. We'll help you navigate the waters, giving you overviews, check lists, critical points and valuable tips learned through real life experiences of hundreds of home buyers.

You will find that this book is shorter than many you would buy in your local bookstore. Our goal here is not to provide you a literary work seeking praise on the *New York Times Best Seller List*. Our focus is to deliver a practical and useful guide that will make your life easier, the home buying process simpler and potentially save you tens of thousands of dollars along the way.

This book is broken into sections which fall into a chronological order. The sections lay out a process for you to follow to help you buy a home. Some subtopics may be covered in multiple sections because the topic comes up more than once during the process.

*Before you buy,
make sure you are
ready for the
massive financial
and personal
responsibility!*

II. Are You Ready To Be A Home Owner?

Without sounding too much like your parent asking you questions, you need to ask yourself: *Are you ready to own a home?*

Historically home ownership has proven to be one of the smartest investments you can make. You need to determine whether you are ready. The responsibilities are huge – mortgage payments, taxes, maintenance cost, utilities and, of course, the responsibility of taking care of the house. If you are, then congratulations – you’re about to embark on the journey of your life!

Why People Buy Homes

There are many reasons why different people choose home ownership. Some enjoy owning a piece of the American dream. Others do it for the potential financial rewards - after paying off your mortgage you can own your home free and clear of debt. Still others want something *that is their own* – they can expand, paint, decorate and renovate – to make it exactly what they want. What ever the reason, millions of people buy homes every year.

Why Others Choose to Rent

Many people instead choose renting. Renting has both positive and negative aspects, and we’d be doing you a disservice if we did not mention both.

Positives of renting:

- You are not “tied down” and, except for the term of your lease, can easily pick up and move
- You can *test out an area* before buying
- You may have the type of job that causes you to move frequently and can adjust your lifestyle quickly
- Generally you are not responsible for maintenance and repairs
- You are not taking on massive long term debt

Negatives of renting:

- You are paying someone else's mortgage, taxes and putting money in their pocket
- There are no tax deductions for renting a home
- You are not building any equity (as you pay down a mortgage on property you own your debt drops and the amount of profit you would make on a sale increases... this is your equity)
- You are less likely to establish yourself in the community
- You will have to move if the owner chooses not to re-rent to you when your lease expires
- What you rent is what you get, unlike a property you own which can be renovated and customized. Except for furnishings you really cannot change a rental.
- Rents climb while mortgage payments remain fixed.

For most of you reading this book the choice is clear. Let's move on to the first topic and get you on the road to home ownership!

Determine what you can afford before you start house hunting.

III. What Can You Afford?

When getting ready to buy a house, you need to determine what you can afford. Here, we're talking both about a down payment and up front cash costs (such as moving expenses, closing costs, etc.) as well as on going expenses including mortgage payments, tax payments, insurance and maintenance.

If it sounds like we're talking a great deal about money and we haven't gotten to the "fun stuff" yet about the house, you're right. Before you can select a house you need to assess your financial situation. Unless you know exactly what you can afford, you can get yourself into a great deal of trouble with a home that becomes a money pit – drawing far more from you each month than you can afford.

That said, once you determine what you really can afford, then the fun begins – you look at homes in your price range and have the chance to find that dream house you are searching for.

Your House Will Likely Be Your Largest Investment

For most people, their house is their largest investment. As time goes on and you pay down your mortgage, you accumulate *equity*. Equity, in its simplest terms is what your house is worth minus any debt on your home. Some day when you retire, if you have paid down your mortgage, you will live mortgage free. If you need additional money you can borrow against your home, with your home being your retirement nest egg.

Take a Long Term View of What You Can Afford

Too many people watched real estate prices skyrocket in the late 90's and early 2000, only to watch prices and equity crash. The foreclosure market is in full swing today because people bought at what was the top and assumed it would keep climbing forever.

You must look at real estate ownership as a long term investment. For some this may be 5-10 years, for others 30-50 years. Whatever your situation, you must know that getting out of a home – selling it if you can't afford to keep up with the payments – is easier said than done. Many people have had homes on the market for 1-2 years. You cannot cash out of a home the way you can with stocks, so be careful if you are "cutting it too close" with your finances.

The tax advantages of home ownership are tremendous.

You need to figure out your “net cost” – what it really costs you after tax savings.

Tax Benefits of Home Ownership

One of the reasons that home ownership is so attractive is the tax benefits home owners receive from home ownership. Under current tax laws, the interest on your mortgage is tax deductible. During the early years of a 30 year mortgage, 90 to 95% of what you will repay is interest, putting only the slightest dent in the principal amount that you owe. The government allows you to deduct the interest portion of the payment from your taxes. Your “net monthly payment” may be 20% to 40% less than you are actually paying. Look at this example:

Mortgage Payment:	\$1,000.00
Interest Portion of Payment:	\$900.00
Tax Bracket:	30%
Value of Tax Deduction:	$\$900.00 \times 30\% = \270.00
“Net Cost” of Payment:	$\$1,000.00 - \$270.00 = \$730.00$

So while you do have to pay \$1,000.00 to the bank, the “real cost” in this example is only \$730 after your tax deductions.

You need to keep this tax advantage in mind when you are planning to buy a home and determining what you can afford.

Remember that, as time goes on, more and more of your mortgage payment is to principal, less is to interest, so the tax deduction you receive (which is only on the interest portion) will decline over time.

There is also a tax savings on your real estate taxes. They too may be tax deductible, lowering your “real cost” of owning your home. Deductions may vary by state, county or municipality, so you will need to check with your accountant.

NOTE: Please consult with a tax advisor before buying your home. The above are only examples and your savings will be tied to your individual tax situation.

While Mortgage Payments Can Be Fixed, Other Costs Can Rise

Most people take mortgages which are “fixed rate mortgages”. Other types exist (discussed in Section XVII) where payments can vary. However, assuming a fixed rate mortgage, where your payments will be

Be sure to consider all of the costs of home ownership.

the same every month for the next 20 or 30 years, other costs can and will climb:

- 1 – Real Estate Taxes
- 2 – Maintenance costs
- 3 – Utility Costs
- 4 – Other costs of living

How Mortgage Companies Determine What You Can Afford

Mortgage companies look at something called your *debt-to-income* ratio. Typically, they look to see if your monthly housing expense (mortgage, taxes, insurance) are less than 33% of your gross income, and whether that expense *plus* consumer debt (i.e., credit cards, car payments) is less than 38% of your gross income. This is known as the 33/38 debt-to-income ratio. If your debts are too high in relationship to your income, you may not qualify for a mortgage, may have to pay a higher interest rate because of the increased risk the bank faces or may have to put a larger down payment on the home.

Other special programs, such as the government's FHA program, have different standards. Currently, the FHA looks at a 29/41 debt to income ratio. Different banks may apply different ratios, so when you speak to your mortgage expert, find out what criteria they apply and whether they are a good fit for your financial situation.

Keep in mind that these are common percentages, and the numbers are calculated and are compared to the criteria established by the bank.

Still Not Sure What Your Monthly Budget Is?

At the end of this book are several forms. First is the "House Shopping Checklist" which you should bring whenever you view a new home. Second is the "Budget Calculator" which can help you calculate what your real monthly budget. You will likely be surprised at how much you spend; nonetheless, it is important that you take the time and evaluate your real monthly budget before looking for a mortgage.

*Spend the time to
calculate a realistic
budget*

Have a Budget in Mind Before Your Start House Hunting

In order to know what you can afford to buy, you need to know your budget. Look at your income, your expenses, and figure out what you can really afford each month. With this number you can select a price range of homes that are best suited for your budget.

Factors to consider are:

Housing related:

- Down Payment
- Mortgage payments
- Taxes
- Maintenance
- Repair and renovations
- Utilities
- Furniture

Not Housing related:

- Student Loans
- Car Expenses
- Food
- Entertainment / Travel
- Education Costs
(including day care,
nursery school, private
school, college)
- ... and more

TIP: Borrowing from Relatives

If you are getting a loan from a family member and not a mortgage, read on! Assuming you want to protect your family member, it is still a good idea to give them a mortgage on the property.

Why?

Suppose you are in a car accident and are sued and a \$1,000,000 judgment is levied against you. The first asset they will attack is your home. If they take the home, they take it subject to mortgages. If family member who loan you the money is not protected with a properly recorded mortgage, they will have no protection and will lose the money the lent you.

Fixing mistakes on your credit report is essential.

IV. Get Your Finances in Order: Start with Your Credit

Most people underestimate the importance of their credit score in their life. While it is important day-to-day, its biggest impact is in the area of home ownership. Good credit means you can get a lower interest rate, make lower monthly payments and potentially afford a more expensive home. With a bad credit score, if you can get a mortgage, your interest rate may be higher, your monthly payments will rise and the amount you can borrow may be less.

Put another way, your credit score can be the difference between a 3 bedroom and 4 bedroom house with the identical monthly payments!

The Fair Credit Reporting Act

The Fair Credit Reporting Act is a federal law that protects the rights of consumers. Extensive information about your credit rights can be found on at <http://www.ftc.gov/os/statutes/fcrajump.shtm>

The URL contains several links to government resources including:

- The Fair Credit Reporting Act (“FCRA”)
- The Fair and Accurate Credit Transactions Act of 2003 (FACTA)
- Educational Materials about the FCRA

FACTA gives everyone the right to a free credit report from each of the three national credit bureaus. Free reports can be obtained once every 12 months.

The FTC indicates that www.AnnualCreditReport.com is the only authorized online source for you to get a free credit report under federal law.

Check Your Credit Score 6-12 Months in Advance

You need to check early so that if mistakes exist in your credit report, you have sufficient time to have those mistakes removed. It can take months of letter writing to get items corrected, so do not delay and start now.

You do not need to use a "free service" to get your credit reports for free.

Write Directly to Each of the Three Major Credit Bureaus

You can get your report from the major credit bureaus from www.AnnualCreditReport.com – the only website authorized by the FTC. You can also write to the bureaus and request your reports. To get their current mailing information please visit:

- Experian, www.experian.com
- TransUnion, www.transunion.com
- Equifax, www.equifax.com

Whichever approach you take, you should act today to get your reports and avoid other sites which claim to offer “free” credit reports, which carry hidden costs, fees and other deceptive practices.

Request Your Credit Reports and Review Them Carefully

When you receive your credit reports, go through them individually, line by line, looking for mistakes. Do things appear that are not yours? Do you show late payments when you paid on time? Are accounts shown as open that are closed? Do you see judgments, repossessions or other things that never occurred? Highlight them with a yellow highlighter and continue forward. You may find many mistakes and those mistakes may or may not repeat on the other bureau’s credit reports.

Does Applying for Credit Hurt Your Credit Score?

When you request credit from someone, whether for a loan, credit card or other reason, that request is recorded on your credit score and has a light negative effect. Excessive inquiries compound the issue. However, all credit inquiries within a 14 day period count as only 1 inquiry (the agencies know some people speak to multiple mortgage companies). Credit inquiries can count for as much as 10% of your score.

Dispute Any Items that are Wrong

Contact the credit bureaus in writing, with all correspondence sent certified mail, return receipt requested. Be sure you sign all inquiries letters that you send to the bureaus.

Credit Bureaus are Required to Remove Erroneous Information

By law, the credit bureaus are required to remove erroneous information from your credit report. The steps involved are beyond the

scope of this book. There is extensive free information available online to help you with this. Several important sites include:

- Federal Trade Commission (FTC)
<http://www.ftc.gov/os/statutes/fcrajump.shtm>
- Get Your Credit Report Online - www.AnnualCreditReport.com
- Experian, www.experian.com
- TransUnion, www.transunion.com
- Equifax, www.equifax.com

Remember:

- Information on your credit report is critical to mortgage companies. They use it to judge your creditworthiness and whether you are likely to consistently pay on time. The more problems they see, the higher rate they will charge.
- While you can try to explain to the mortgage company that items are erroneous, and try to produce documentation proving it is erroneous, it is far easier to contact the reporting agency to correct their records.
- It is never too early to start correcting mistakes in your credit report. While laws govern how long it is supposed to take, the reality is that it can take longer.
- Just as important as cleaning your credit report is *keeping it clean*. Do not pay anything late and do not take on any new credit or debt. Avoid increasing your balances on your accounts while you are shopping for a home!

In addition to your credit score, other factors you must consider:

Avoid Taking on Any New Debt

If you are serious about buying a home, stop spending now! While you need to curb spending while buying a home, *you must avoid taking on new debt*. You will likely need a new mortgage and increasing your debt load – whether through credit cards, store cards, car leases, financed store purchases or personal loans – will make it harder for you to get a mortgage.

Avoid increasing your debt load when you are getting ready to buy a home!

Taking on new debt may force you to borrow less, be forced to pay higher interest rates or be declined for a mortgage outright. Avoid the temptation of those 0% offers and just say no!

Consolidate Your Funds in One or Two Places

Do you have several checking accounts, savings accounts and stock portfolios scattered around? Having your assets in a few accounts, as opposed to dozens of accounts, makes your job easier when the mortgage company asks for financial records from you.

Do Not Apply for Credit with Dozens of Sources

Applicants for credit actually have a slight negative effect on your credit score. Multiple applications compound the problem. Avoid creating excessive inquiries into your credit.

V. Stability is Important

Mortgage underwriters like stability. Instability means risk – risk that you cannot repay the loan; risk that the bank may end up in foreclosure. Banks do not like foreclosures. They want to be repaid on the money they lend and work hard to find the safest mortgagees. (Note: some banks do work with higher risk mortgages; they demand higher interest rates to cover that risk).

Financial Stability is Important

Unexplained large deposits immediately before you apply for a loan is a red flag. Having a steady balance for several months is more important than a balance spike days before you apply.

If your balance does spike – such as a gift from a relative – make sure you have a letter substantiating this, so the mortgage company knows it is a gift to be used as part of the down payment, as opposed to being used to trick the bank into thinking you maintain large balances.

Job Stability is Important

If possible, avoid changing jobs in the months leading up to the mortgage (and closing) on your home. This too creates risk and could either cause a mortgage company to “pass” on your deal *or* give you a much less favorable mortgage (i.e. at a higher interest rate).

If you do change jobs, try to make sure you taking another position in the same industry. Major life and career changes should not happen while you are trying to get a mortgage.

*The more you put down,
the easier it will be to get
a mortgage which will
have lower rates and
smaller payments.*

VI. Down Payment

When people refer to the “down payment” they may actually be referring to two different things. Both are important and we’ll discuss both.

The main use of “down payment” is how much you will be putting up yourself at the closing, with the rest being paid by the mortgage company.

Secondarily, some people use “down payment” to refer to the *good faith deposit* you give when you make an offer on a house and sign a binder / purchase agreement. For the purpose of this book we will refer to this type of payment as a *good faith deposit* or simply a *deposit*.

Deposits can vary from several thousand dollars to 5% or 10% of the purchase price. Naturally, the seller wants more and the buyer wants to put down less. Generally you want to put down as little as possible, but not so little that the seller refuses to accept your offer. This is all a point for negotiation, and standards can vary by market.

Most Mortgages Require a Down Payment

While some high-risk lenders will do 100% financing (and more) we strongly advise against it. If you cannot afford to make a down payment, it is more likely that you will have trouble affording the higher monthly payments – and higher interest rates – associated with “little money down” and “no money down” mortgages. You pay more because you borrow more, and you pay more on the entire mortgage because of higher interest rates charged on these risky mortgages.

You Down Payment is also Important to the Seller

When you make an offer to buy a home, there are several things the seller thinks about. While their first thought may be “*are we getting enough for our house,*” their second thought will be “*will this person be able to close and actually buy it?*” A seller who is going to make a small down payment and finance a high percentage of the purchase price is a greater risk and is less appealing to the seller.

Buyers who make an offer that includes a more substantial down payment (or cash portion of the purchase price) help make the seller the more confident that the buyer will be approved for a mortgage. At times a seller may actually take a lower bid from a buyer who is putting

down a significant amount of cash vs. a higher offer from buyer who will be putting very little money down.

Price, Down Payment and Credit Score – the Magic Triangle

As you can see, price, down payment and credit score all play into each other. If you have better credit and a significant down payment, you have a much greater chance of getting a mortgage, may negotiate a lower purchase price, and may receive a lower mortgage rate (with lower monthly payments). You may even be able to afford a more expensive house with all of these factors in your favor.

In contrast, a low down payment, low credit scores and higher interest rates make it harder for you to buy a home, will cost you more every month for the same size loan and may force you to buy a smaller house.

Typical Down Payments are 10% of the Purchase Price

The most common down payment you will see with mortgages is 10%. Opinions are mixed on whether you should give a larger down payment. Let's look at the pluses and minuses:

Arguments in Favor of a Larger Down Payment

- You will have strong leverage in negotiations with the seller
- You will receive a lower interest rate
- You will take on less debt with a smaller mortgage
- You will have an easier time being approved for a mortgage
- A larger down payment may help offset problems with your credit score

Arguments in Favor of a Smaller Down Payment

- You leave yourself with more cash on hand
- You reduce the risk that you will go into debt (credit card debt or home equity debt) in the future when you need to make purchases, and credit card debt and home equity debt are at higher interest rates than mortgages
- You can pay off other debts (credit cards, student loans, personal loans) which may be at a higher interest rate *and* may not be tax deductible
- With relatively low interest rates (currently 6.5% to 7%) and tax benefits on mortgage interest, the "real cost" of mortgage

Typical down payments are 10%, although you can choose to put down more or less.

- In addition to your mortgage payments you will have significant up-front costs when you buy a house – legal fees, taxes, insurance, moving costs, immediate repairs / renovations,

Save yourself time by deciding where you want to buy before starting your hunt

Make sure you can afford the town or neighborhood you want to live in

VII. Neighborhood Hunting

Have you decided which neighborhoods you want to look in? You may find a beautiful home in an area you do not want to live. Conversely, you may accept a lesser house to be in your dream location.

You need to decide the kind of area you want to live in to begin searching. Some of the criteria you want to decide on will include:

- Is there a particular town you want to be in?
- An area of town?
- On a private road or cul-de-sac?
- School districts may or may not be important to you. Homes in better districts often have higher real estate prices and taxes.
- Are amenities and services a concern? Do you want parks, swimming pools and new libraries?
- Do you want to be near railroads, highways and mass transit?

How Much Can You Afford?

The last several chapters have given you an idea of what you need to consider when getting ready to buy a home. Ultimately, it all comes down to monthly payments. If your taxes are lower you can afford a little more. If taxes are higher you can afford less. If you are in a community that has monthly maintenance charges or dues, that will also play into the mortgage payments you can afford.

When calculating what you can afford, use our form at the end of this book “What Can I Afford” to help evaluate your finances. The list of expenses is not exhaustive and you may have other expenses not considered on this form.

How much you can afford effects not only which house you can buy, but which neighborhoods you should look in. Try to determine this before you start your hunt.

Location, Location, Location

We’re sorry to use a cliché, but location is tremendously important when you are looking for a home. You will be living there for years to come, and the location is almost as important as the home itself.

Do you have a location in mind?

There are many reasons people choose a location. Perhaps family and friends live nearby. Perhaps you have children and want them in a great school district. Perhaps the town has great homes, not great schools but you do not have children and can get a great value on a comparable house.

Here are some things you should consider and rate for yourself. Either pick the one more important or rate it from 1-10, 10 being high:

Factor	Choice or Score
Private community or public neighborhood?	
Remote or close to shopping and major roads?	
Good public schools (score 1-10)	
Income levels in the area (1-10)	
Strong Diversity in the Community (1-10)	
Primarily Home Owners vs. Renters living in the community (1-10)	
Public services such as parks nearby (1-10)	
Stability of Local Economy (1-10)	
Crime & Safety Issues (1-10)	
Tax Rates in the Area (1-10)	

Review your answers after you complete the questions above. There is no right or wrong answer; it will help you identify the right towns or neighborhoods for you to search.

“Regular” Neighborhood vs. Housing Developments

While there is nothing wrong with living in “regular neighborhoods,” here we’re distinguishing between a neighborhood where homes were built one-off and a housing development which has uniformity.

The “regular neighborhoods” are often older, as much of the construction in the last 20 years has been by developers building an entire development at a time. There will be much less consistency in the neighborhood. You may encounter nicer homes, smaller and run-down homes and recent construction, all on one block. Some people prefer the feel of this type of community.

With housing developments, the houses were built as part of a development plan, generally over the course of several years, with all homes being approximately the same age. They often look similar or the same as the other homes in the development.

If you are not sure which you prefer, look at homes in both types of communities and you may develop a preference.

VIII. Real Estate Brokers

One of the biggest decisions you need to make as you prepare to search is whether or not you should use a real estate broker. A real estate broker will generally specialize in a few neighborhoods, knowing an area very well. If you are looking at two completely different areas, you may want to work with two different brokers. A broker will add less value if they show areas in which they have little or no experience.

Some of the advantages of using a good real estate broker include:

- They know a particular market – generally several towns – what is available, what has sold recently and at what prices
- They have visited dozens, if not hundreds, of homes in the area and should have an idea of which ones do not meet your goals. This should save you time by avoiding homes that do not suit your needs or criteria.
- Many sellers are using brokers and having a broker negotiate against the other broker can work in your favor. Typically there is no cost savings when there is only one broker; the seller's broker keeps the entire commission.
- They should have a feel for current market conditions, and whether homes (and what kind of homes) are selling quickly (good for the sellers) or slowly (good for buyers)
- They should be emotionally detached and should be able to better negotiate on your behalf
- They likely know the broker on the other side of the transaction and may have an easier time getting deal done than if you negotiate yourself

Of course, there are disadvantages of working with a real estate broker that you must consider:

- The cost. Someone has to pay the broker. Typically brokers receive 6% on a transaction (3%-6% are normal) and the seller has likely increased the price of the home to cover the cost commission.

FYI – commissions are usually split 50-50 between the buyer and seller real estate broker firms. The salesperson (the person you will deal with) typically takes 30-60% of what their company earns. If the sales person sells “direct” – without an opposing

For many people, a real estate broker adds value

Prices may be lower on a “for sale by owner” but not always. Some sellers ask irrational prices.

Direct Deals between a buyer and seller can be challenging.

broker – that company and the sales person keep the full fee.

- What is the quality of this real estate broker? Some are good, some aren't. One of the biggest complaints we've heard are of brokers who simply do not listen. If they aren't showing you what you want to see, tell them. If they don't listen, find a new broker.
 - *Some brokers may only show you what they want to sell; "direct deals" earn them twice the fee!*
- The broker may be inexperienced or new in the area and may not add much value during the searching process
- It is extremely unlikely that they will show you homes that are "for sale by owner" (also called *FSBO's*) because they will not earn a commission

... and remember – just because you work with a real estate broker doesn't mean you always have to use that broker. If a home comes up as a FSBO you should look and see it on your own – it may be your dream home that the seller is selling direct!

If you need a mortgage, find one now, not when you are ready to close.

IX. Find a Mortgage Company

An experienced mortgage company that writes mortgages in your area can be a great help to you. They know the market, what kinds of mortgage you may qualify for and the criteria that will be applied to your situation.

Even if you have not found a house yet, you need to contact a mortgage company now to get information, learn what you qualify for and get a commitment letter (which is important to sellers).

Mortgage Bankers vs. Mortgage Brokers

You have likely heard of both. Do you know the real differences between the two? There is the difference in how they are defined, and there may be less of a difference in a practical sense. Neither is better in all situations – it depends on your scenario.

Mortgage Bankers have the money. They are licensed by the state and are allowed to write consumer mortgages. They are generally lending their own money (they may have borrowed their money another source, but the loan comes from them). They can keep the mortgage and service it, meaning they collect interest over the next 30 years, or they can resell the mortgage to a third party (such as an investment fund). If it is resold, the only thing that changes on your end is who you send the check to. It is extremely common for mortgages to be resold – often several times – over the life of the mortgage.

Mortgage Brokers do not lend money. Instead, they work with one or more banks (usually more than one) and act as an outside company that is finding people to borrow money. In other words, they are doing the sales work for the mortgage banks. Some mortgage brokers work with multiple banks because different banks have different lending criteria. Some mortgage banks will write high risk mortgages; others only low risk. Some will lend large amounts; others prefer smaller mortgages. Whichever is the case, the mortgage broker's job is to find you the best mortgage given your scenario – credit score, down payment, purchase price, loan-to-value ratio and more.

We cannot say that one is always better than the other. It depends on your situation and it depends upon your criteria and qualifications to get a mortgage.

Finding a good and credible mortgage company is essential.

Some less honest ones offer teaser rates that jump at the closing, have hidden fees that eat up any savings you would see on their "lower rates" or both!

A mortgage broker may be able to find you a lower rate than you would get going directly to a particular mortgage bank, or a particular mortgage bank may present the lowest rate you will likely find for your situation. When you speak with different companies, speak with both types and try to get the best information and rates possible.

Avoid Less Credible Mortgage Companies

When the refinance boom started in 2002, thousands of mortgage companies sprang up to capture refinance business. Many churned clients with bad mortgage programs, hidden costs and over-leveraged mortgages that the consumer could not afford. Others pushed various mortgage programs that are now causing a mortgage crisis where consumers cannot afford to make payments.

Others engaged in dishonest practices, such as promising a particular rate and, half way through the closing, tell the buyer that the rate is higher because of market conditions, something on their credit report, or some other excuse they conjured up. Still others added on excessive fees that were not disclosed, padding their pockets and putting the borrower in a worse situation than if they had a higher rate mortgage!

You may be surprised to learn that many mortgage companies did not even want to work with home buyers, instead making a quick buck in the refinance market!

You need to work with one that specializes in home purchases. They understand that the process takes time, and that they must be willing to put in time to help you. You will want to find someone who will work hard with and for you, similar to the way a real estate broker works with you through the entire process.

Mortgage Companies in Your Area Who Help Home Buyers

The mortgage companies on the following page have been in the industry many years and want to work with home buyers on purchase mortgages. They have agreed to work with you and assist you to get prequalification letters, commitment letters and more.

We invite you to take advantage of their experience and find a mortgage company that you can help you through the entire process.

In no particular order, they include:

ING Direct

www.ingdirect.com

We do business online, over the phone and by mail. Without the overhead and high operational costs of other banks, we can pass those savings onto customers.

Countrywide

www.Countrywide.com

Countrywide is a diversified financial services company focused primarily on real estate finance and related activities. Since our founding in 1969, our mission has been to help individuals and families achieve and preserve the dream of homeownership. Today, this cornerstone principle continues to guide and drive all of our business decisions. It has also produced a high-performance, high-integrity culture that's unique to Countrywide and draws many of the best and brightest in the industry to work here.

Leadership: Countrywide is America's #1 home loan lender.* In fact, we're a leader in nearly every aspect of real estate finance. We offer our customers a level of expertise, product selection, and service that's unmatched in the industry.

Ditech

www.Ditech.com

97% of ditech customers give us the highest satisfaction rating because we understand that no person wants to be treated like a number. They just want things to add up in their favor. We want that for them, too.

E-Loan

www.eloan.com

Our position is simple: Your personal information is your private property. Named America's highest ranking online financial services company for privacy, we never sell or share your information with third party marketers. In fact, we won't share it with anyone unless you explicitly instruct us to do so.

Maybe that's why The Customer Respect Group, an international research and consulting firm that focuses on how corporations treat customers online, named E-LOAN number 3 out of 464 major corporations in matters of protecting privacy.

X. What Kind of Home Do You Want?

Homes come in all shapes and sizes. Do you want a house? A condominium? Co-op? Townhouse? How many bedrooms do you want? What other features are important? Try to narrow your search:

	House	Condominium / Townhouse	Co-Op (Cooperative Apartment)
General	This is the typical free standing house on its own land.	While each condominium and townhouse is individually owned, they are attached. You will have monthly fees for common charges (such as grounds maintenance, etc.)	Co-Ops exist in many cities and may or may not be in your area. Here a corporation owns an apartment building and you buy shares in the corporation, enough to get your unit.
Flexibility	Great Flexibility – you must abide by home owner association rules and zoning laws, if any, but you have maximum flexibility	Association rules govern. Generally you can do very little with the outside of your property and may have restrictions on what you can do inside your four walls.	Co-ops are the most restrictive. Some people consider it intrusive; others like an environment where neighbors are regulated in what they can do.
Risks	Your risk is your home. If you are part of a home owners association you may have limited exposure for risks in common areas	Your risk is your home. If you are part of a home owners association you may have limited exposure for risks in common areas	Your exposure is much broader. Because the building is owned by a corporation, the entire building is at risk in the event of lawsuit, financial problems, etc.

What Features Do You Want in Your Home?

Do you have any idea of what you want to buy? Don't feel bad if you don't – that's part of the home buying process. Look at all sorts of homes – ranches, capes, colonials, Victorians, splits and more. You may find features that you prefer in some and not in others. Visit several of each type and see if you can find some homes you like.

Here's a brief checklist put together to help you in your search:

Add in any other features that you feel are important that are not on this list.

Type of Home	<input type="checkbox"/> Colonials <input type="checkbox"/> Ranches <input type="checkbox"/> Splits <input type="checkbox"/> Capes <input type="checkbox"/> Victorians <input type="checkbox"/> Townhouse <input type="checkbox"/> Condo <input type="checkbox"/> Coop Other:
Type of Community	<input type="checkbox"/> Public Neighborhood <input type="checkbox"/> Gated Community <input type="checkbox"/> Private Condo, Co-Op, Townhouse community
When House Was Built	<input type="checkbox"/> New Construction <input type="checkbox"/> Existing not more than _____ years old <input type="checkbox"/> Existing, age is not a issue
Number of Bedrooms	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7+
Master Bedroom	<input type="checkbox"/> Important <input type="checkbox"/> Not Important
Kitchen	<input type="checkbox"/> New / Renovated <input type="checkbox"/> Good <input type="checkbox"/> OK for now <input type="checkbox"/> Will replace
Living Room	<input type="checkbox"/> Important <input type="checkbox"/> Not Important
Family Room	<input type="checkbox"/> Important <input type="checkbox"/> Not Important
Dining Room	<input type="checkbox"/> Important <input type="checkbox"/> Not Important
Full Basement	<input type="checkbox"/> Important <input type="checkbox"/> Not Important
Finished Basement	<input type="checkbox"/> Important <input type="checkbox"/> Not Important
Home Office	<input type="checkbox"/> Important <input type="checkbox"/> Not Important
Home Theater	<input type="checkbox"/> Important <input type="checkbox"/> Not Important
Maids Room / Guest Room	<input type="checkbox"/> Important <input type="checkbox"/> Not Important (usually in separate part of house with a private bathroom)
Swimming Pool	<input type="checkbox"/> Important <input type="checkbox"/> Not Important <input type="checkbox"/> In Ground <input type="checkbox"/> Above Ground <input type="checkbox"/> Gunite <input type="checkbox"/> Vinyl
Land	<input type="checkbox"/> Important <input type="checkbox"/> Not Important Desired Lot Size: _____

New Construction vs. Resale

Do you want new construction or an existing home? Once again, there are advantages to both.

Advantages to new construction:

	New Construction	Resale / Existing Home
Design	Larger rooms, higher ceilings	Older designs were for smaller rooms and lower ceilings
Electric	More outlets, higher capacity electric systems	May not have enough electric in the right locations; need to check the capacity of the electric panel
Air Conditioning	New central air systems	If it has central air, how old is it? Does it need to be upgraded or overhauled?
Appliances	All new, many built-in	Varies. You need to look at the individual home to determine the newness and quality of the appliances.
Opportunity to Customize	<p>If construction has not started yet, you may be able to make changes, generally with a lower “upgrade cost” (i.e., choose a refrigerator that costs \$200 more, make a closet wider, etc.).</p> <p>Wall colors, carpet colors, appliances and more can be changed before the house is built.</p>	<p>Structural changes are most expensive here, may require building permits, zoning variances and more. This can also increase your tax burden.</p> <p>Changing appliances are expensive – you pay the entire price of the new units and not just an “upgrade cost” for the difference between expensive and inexpensive choices.</p>

	New Construction	Resale / Existing Home
Heating and Insulation	Newer systems, higher energy efficiency	Generally older systems; insulation may not be as efficient as possible.
Safety	Generally safer with better electric, fire detection, fresher materials. However, poor quality new construction can be dangerous.	Higher risk because you are dealing with older construction, materials and cannot judge safety just by looking – a home inspection is essential.
Asbestos, Lead and Mold Issues	Should be none – it is new construction with new materials	The home inspector should also check for this. Not all mold is dangerous but you need to check for these.
Repairs	Repairs should be minimal during the first years. Most new construction includes warranties. However, expect some problems when dealing with something built as large as a house.	Repairs are a bigger issue because things are older. You don't know how well the former owner maintained the home. Some homes have a warranty that may be transferrable on sale.

Let's face it – who would not like a brand new home? It is clean, fresh, no one has lived in it and it is really yours.

But are there any downsides to new construction? Yes.

Review the table on the following page of some of the issues you should consider. They may not all be problems for the house you are looking at, but they are certainly factors you should consider.

The downside of new construction:

	New Construction	Resale / Existing Home
Real Estate Taxes	Generally speaking, real estate taxes are HIGHER on new construction.	Generally taxes are lower than comparably sized new construction.
Costs	Generally higher than similarly sized existing construction	Generally lower than new construction
Construction Delays	Regardless of the builder's best intentions, most projects suffer delays – often extending the time by 50%-100%	The house is already built; renovations may run long but unless you are doing massive renovations, it won't keep you from moving in to the home.
Are Services Nearby?	With new developments amenities may not be in place yet. They sometimes follow after everyone moves in and establishes a need for services.	Services may already be in place; you will know before you move in.
Schools Nearby?	Again, they may not be in place yet and children may be bused to existing schools. Schools usually follow increases in population and demand, not construction.	Schools are likely in place already. If an area is converting from vacation homes to year round homes, schooling may be an issue.
Are Lawns, Walks and Landscaping in Place?	New construction may or may not include landscaping and you may have an additional cost for grass. A lawn is important to protect from flooding and protect the soil.	Generally lawns are be in place already. You may want to upgrade the landscaping but should have essentials in place.

Advantages of existing homes:

	New Construction	Resale / Existing Home
Time to Move In	You may wait months or a year to move in after going to contract on your new house	You can generally close on an existing house in 30 days, depending upon timing demands from both the buyer and seller
You Know What the Community Looks Like	Communities often look like a giant construction site for several years. Plantings, including trees, can take 10-20 years to mature.	Existing communities have mature landscaping, established residents and a certain feel to them
Resale Value	Resale values in a new community are not certain. Will the community sell out? Will people be happy with construction quality?	Resale tends to be home-by-home and a history of resales are on file with county recorders.
Ability to Negotiate Price	Typically builders have a price in mind. They may be flexible in weak markets but homes still have a "list price"	You generally have a better chance of finding a bargain with an existing home
Quality of Home Condition	New homes should be in prime condition	Some home owners renovate, paint and landscape to help them sell their home; it may be in great condition.

In the end, you need to evaluate what works best for you and your family. There is no one right answer and we recommend that you look at both during your hunt.

Be sure to keep an open mind - even if you think you are "just looking for new" or "just looking for classics" you may find a home completely different than what you expected that is your dream home!

XI. The Interior of the Home

For most people, 99% of their “at home” time is inside their home, not outside.

While the property may be great, how is the house?

Kitchens are the most expensive room to renovate.

If the kitchen needs to be replaced, be sure that is factored into the purchase price of the home.

As you explore and find homes, study them hard. See what features you like and don't like. If it is the home you want to buy, you should really love it – you are going to be living there for a long time. While many people place an emphasis on the exterior, we believe the interior is far more important. Your family will live inside the home and be outside looking at it perhaps 1% of the time. 99% of your time will be spent living in the home, so make sure it is what you want.

Here are some key questions to consider when evaluating a potential home purchase:

- Do you get a warm feeling from this home?
- Do the rooms flow well or is it “choppy”?
- If you like to entertain, do you have enough room to entertain?
- If you hold dinners frequently, do you have enough room in the dining room to sit your guests? Do you have a large enough kitchen to cook for your guests?

... and some questions to ask room-by-room:

Kitchen

- Is the kitchen large enough for your every day needs?
- Are the appliances and cabinets up-to-date or do they need replacing?
- Are the fixtures (faucets) in good shape or do they need to be replaced? Any signs of leaks?
- Is the electric in the kitchen up-to-date? Are the outlets three prong outlets? Do you see GFI outlets near the sink (below). Note the breaker buttons present on the GFI outlet.



- Is there sufficient lighting in the room? If there is a light fixture, does it look usable, ancient or just not to your taste?
- How are the floors? Are they level? Warped? Cracked? In need of immediate repair? Be sure to look at the floors from the underside in the basement to see if there is structural damage with the joists
- Are the ceilings in good condition? Water stains (which could be from bathrooms above)? Are they warped (which could indicate water damage or structural damage).
- Is there adequate heating and air conditioning in the kitchen? The kitchen is most often the hottest room in the house, so be sure that there is adequate air conditioning supplied to that room if the house has air conditioning.
- Are the appliances working? Open the refrigerator and freezer. Do they seem cold enough or is it just “cool” and the refrigerator is set on “max cool”?
- Look under and around the sink, garbage disposal, dish washer and refrigerator for signs of leaks. Repairs could be minor or major but you will want to know ahead of time!

Bathrooms

- Are the fixtures current? Older than you can believe? Are there any signs of leaks? Look under the sink’s base cabinet and see if there are signs of leaks underneath the sink.
- What is the quality of the plumbing? Is it plastic PVC (most common) or metal? If metal, how old are the pipes? Could there be lead in the pipes or joints?
- Run the bathtub and shower. Does the water flow well? Is there very little pressure? Do the fixtures leak when you are running them?
- What condition are the floors in? Dirty grout between the tiles may be cleaned. However, many cracks in the floor *could* indicate problems in the subfloor. Have your engineer check.
- How is the overall appearance of the bathroom? Is there wallpaper on the ceiling that makes you want to pull your hair out? Mirrors on three of the walls? A color of tile that you can’t imagine they ever manufactured on purpose? Even if you don’t love it, can you live with it until you are ready to redo the bathroom? Is it a nightmare that has to be fixed immediately?

Bathroom renovations can cost thousands to tens of thousands of dollars.

If you want to make changes, are you talking about wallpaper or ripping out the bathroom?

- Do the bathrooms have two prong (old style) or three prong (current) outlets. Most, if not all outlets in the bathroom should be GFI outlets. Your home inspector should not only check to see if you have them but should test them all to see if they are working properly.

Living Room, Family Room, Den

- Are these rooms big enough for your family? Think both about your present needs and your future needs. If you are planning on having more children, take that into account. Also, if a room is small but “good enough” for now, what will happen when your 4 and 6 year olds turn 12 and 14 and have friends over?
- Are the big enough for furniture you want to bring with you *or* for the kind of furniture you want? For example, an “L” shaped sectional couch plus a television, entertainment center and coffee table will need a room at least ____ feet wide by ____ feet long (fill in your own numbers). If the room is 2 feet too small then it is 2 feet too small!
- What is the condition of the floors? The rugs? Are you planning on pulling up the rugs to use hardwood floors underneath? If you are, you better check to make sure they exist! Some builders put carpet right over plywood, with no usable hardwood floors.
- Do they have dogs? Do you see urine stains on the carpets? There’s a good chance it is gone through the carpet and down to the wood floors.
- Are there enough outlets in the right place? People use far more electricity today than they did 20 years ago. Between TV’s, amplifiers, Xbox, DVD players and more, you will consume a lot of electric and do not want to overload one outlet. If there aren’t enough it should not be a deal breaker, but be aware that you may have to hire an electrician to add additional outlets to accommodate your needs.
- Do you know where you want to hang that plasma TV? Is there electric nearby? Is there enough wall space for the plasma TV? And if there is, is there room to put a couch across from it? You don’t want to watch TV sitting diagonally!

Hint: Look at the wall where you want to hang the TV. Are there windows opposite the TV – and those windows face east,

south or west? If so, you may have a glare on the TV screen in the morning, afternoon or evening and need shades or curtains.

Master Bedroom

- Do you want a master bedroom? The master bedroom typically is the largest with a private bathroom and walk in closets. Is this critical for you?
- Is it large enough? Is it laid out well or is the room awkward?
- What condition is the bathroom in? *See the discussion on Bathrooms above for specific issues.*
- Do you *like it*? Do you *love it*? You will spend a lot of time in this room so make sure you are happy with it

Additional Bedrooms

- Are there enough bedrooms?
- Do you think your family may grow in the future?
- Will you have guests staying often enough that you want to have a guest room?
- Do you want a home office? If the home does not have one already (many older homes do not) you will likely convert a spare bedroom into an office.
- Are the bedrooms large enough? Don't look at the size of your kids today... remember that they grow and grow fast. The 4 and 6 year olds will be a lot bigger ten years from now. Make sure you have room for them to add full sized beds, desks, dressers and have sufficient closet space.
- Do they have enough closet space?
- Do you have enough bathrooms for the number of bedrooms?
- It may sound sexist, but if you have daughters (as we do) the reality is that you may need more bathrooms or bathroom space than you do with sons. Keep this in mind before you lock yourself into a particular home!

General – All Rooms

- If the room has exterior doors and windows, are the locks working properly? Are the locks completely out of date?
- Do you detect drafts around the doors and windows?
- Are there cracks in the glass in the windows?
- Are window screens in place? If not, are they in storage somewhere in the house? Don't take anyone's word for it –

look at them, make sure they are all there and that they are in reasonably good condition.

- Do you detect pet or smoker odors? If they are strong, you may need to repaint the walls and re-carpet the room. While shampooing the carpets may work *sometimes* it is not guaranteed.
- Check the walls for termite damage. If you have wooden wall paneling, moldings, etc., and see bubbles in the paint, push on it lightly. If your finger disappears below the surface level of the wood, that is a strong indication of termite activity. Also look for indications of sawdust – another potential sign of termites.

Minor Issues Inside the Home

- If trim, woodwork, etc., looks in disrepair, is it just a bad / old paint job? If the wood underneath is good, you can easily repaint and make it look new
- Rugs are not clean, floors do not shine – before moving in you can have runs shampooed and floors cleaned and shined.
- Squeaky door knobs and hinges can be treated with WD-40 or other lubricant.
- Mildew tiles, dirty grout between tiles and other stains can often be cleaned with cleaning products from the grocery store. Industrial strength products from home centers may be required on particularly tough stains.

XII. The Exterior of the Home

There are things that you need to look for on the outside of the home that may be significant problems or may be minor issues that can be resolved quickly. This is not a complete list; rather it serves a guideline of major issues that will put you in the right frame of mind when you are evaluating a particular home.

You should assess these items before making an offer on a home. Your home inspector should evaluate the home in much greater detail.

Major exterior items to check include:

- **The Roof** – the roof must be checked by your home inspector. It is one of those items that is critical to the care of your home. Yes, it can be replaced but it is expensive and you need to know whether it needs to be replaced. A leaky roof lets in water than can cause both visual as well as structural damage to other parts of your home and/or destroy your personal belongings.
- **Pitch of the Property** - if the property slopes towards the house, water will flow towards the house when it rains. This can cause water to build up against your foundation and can cause leaks and/or a weakening of the foundation. Minor pitches can be potentially fixed by re-grading the property (not inexpensive) but repairing major pitch problems may be massively expensive, if they can be repaired at all! *If the land pitches towards the home be especially careful checking the basement for leaks.*
- **Doors** - Doors that stick when you open them may indicate warping in the door or potentially warping in the door frame. That can happen as the result of structural damages in the house, sagging foundations or both. You need to inspect carefully and determine the real causes of this condition.
- **Door Locks** - Are they sufficient for the community you are in? Are they recent or obsolete? Do they stick when you try to use them? *Regardless of their condition, when you move into a home you should always hire a locksmith to “re-key” all of the locks so old keys will not work in them!*
- **Brickwork** – look for loose bricks and crumbling mortar. These can indicate that you need brick repair OR that there is a more substantial structural cause to this damage. You need to inspect closely.

The exterior of the house should protect you from the elements.

Your engineer should review all of these items and more in assessing the property.

- **Crawl Spaces Under the Home** – if there is a crawl space, it can be prime nests for various critters. Make sure that nothing is living under there. Your inspector will have to check for this as well as the structural integrity of the floor above the crawl space.
- **Buckling, Bowing or Sagging Walls** – these are indications of serious structural damage.
- **Fences** – Are there fences in place? Are they in good condition?
- **Swimming Pool** – if there is one what condition is it in? Is it running or is it a swamp? How about the pumps and heater? Do they look new or dated?

Minor exterior issues that may be repaired:

- **Messy or Overgrown Yard** - a landscaper or a weekend with a mower and hedges can work wonders. *Hint: if the yard is a wreck, that may give you insight as to how the owner cared for the rest of the home!*
- **Window Screens with Tears** – these can be easily repaired with a repair kit from a local home center.
- **Dirty Steps, Walkways and Decks** - can generally be cleaned with a power washer. Significant cracks may need repair.

Other Questions to Ask

Don't be afraid to ask lots of questions before you decide to make an offer on a home. You do want to be reasonable; you shouldn't go back seven times with friends, family and people you met at the grocery store to show them the home. Two or three visits should be more than reasonable; be sure you are thorough when you are there, so you do not miss anything you need to examine.

Some additional questions to ask while you are examining the house include:

- Does the home come with a home warranty? New construction often includes a home warranty, and some home owners may have purchased an extended home warranty. These may be transferrable to you – be sure it is included.
- Find out exactly what is included in the sale. Are they planning on taking or leaving the major appliances? How about lighting

fixtures? Window shades? The weather vane on the roof of the house? These are important questions to ask. If they are planning on taking it and you think you are buying it, you will have a major conflict. Avoid these conflicts from the start. If certain items will not be left (for example, the Subzero refrigerator or the Viking stove) that needs to be factored into the purchase price.

- What major work was done in the last five years and why was it done?
- How old is the roof?
- What, if anything, has been done in the basement to avoid leaks (for example, sealing the exterior walls, installing French drains, etc.)
- How old is the pool? The heater and pumps? Has any work been done on it recently?
 - If it is a vinyl pool, how recently was the liner replaced (they do need to be replaced at some point).
 - If it is a gunite pool, have there been cracks and repairs? Has it been marble dusted recently”
- Who put up the fences – the home owner or the neighbor? Who is responsible for maintaining it? Does it encroach on someone’s property line?
 - If there is a pool and local laws require fencing around the pool, is that fencing in place and what condition is the pool fencing?

“Fixer Uppers” can be a great value but can also be very stressful.

No joke – make sure your relationship is solid with your spouse or significant other before embarking down the renovation highway.

Renovations can be very stressful.

Make sure your relationship is solid with your spouse or significant other!

XIII. Is a Fixer Upper for You?

Suppose the house you are looking at needs a lot of work. Should you still look at it? Should you run the other way?

A fixer-upper often represents the best value you will find. The house needs minor or major repair and the price should reflect this. It can be significant work – whether you do it yourself or hire a contractor – to get your new home in the condition you want. Factoring in the cost savings, you can get more home for your money. But are you ready for the stress and work required?

Typically a fixer-upper may sell at 20-30% less than their renovated counterparts. Houses in poor condition may sell for less but may be more suitable as a “knock down” for a builder (who literally knocks down the house and puts new construction in its place). You want to find a house that is structurally sound, sturdy and suitable for renovation.

Do You Want to Do The Renovations Yourself?

One of the key decisions is how much of the renovation you can actually do yourself. This is a question only you can answer. Perhaps you can do carpentry or simply painting and wallpaper. Can you tile the bathroom floor yourself or do you want to hire a contractor? Structural changes and electric work should be performed by a licensed professional.

Renovations can take a long time and don’t necessarily have to be done immediately. Many people spend months and years fixing up their home, one room at a time. Others make a full assault on the house, renovating as many rooms as possible before moving in. These renovations, whether performed by yourself or a professional, will cost money; if you plan on doing them right after the purchase, make sure you can afford it before you start.

If you are going to tackle it yourself and aren’t sure how to proceed, get help. An experienced friend or a free class at the local home center can help you learn to sheetrock, spackle, tile or perform any other non-structural repairs to your home. Whether you are doing it yourself to save money or because you love getting your hands dirty, it doesn’t matter. The rewards of a job well done will go far beyond the dollars you save vs. hiring a contractor!

XIV. How Much to Offer?

Let's assume you have found the house you want, you've decided it is in your price range, and you're ready to make an offer. Now the fun really starts.

Bidding and negotiating on a home can be tremendously exciting and stressful at the same time. This is one place in particular that real estate brokers become very valuable to you. Remember that while you are negotiating to buy a property, the seller is negotiating to sell *their home* that they've lived in for 10, 20 or 30 years. Lowball offers may actually be perceived as an insult. Portions of their home that they love may come under fire as a negotiating tactic. Certainly negotiate in your best interest; just be aware of the emotions on the other side and the more aware you are of them, the better you can negotiate.

Focus on Value and not Price

You may be shocked to hear this, but we believe that your beginning analysis should virtually ignore the asking price on the home. Ignore it? Absolutely! The house is worth what the house is worth and the asking price has nothing to do with value. You need to step back, assess the house in relation to others you have seen, and try to determine what it is really worth in the current market.

Remember to include comparable sales (known as "comps") in your analysis (and later in your negotiations). While you don't have to list them in writing, be prepared to discuss them or point to them to justify your position that the price is above real market values. Look at houses that are roughly the same square footage with the same number of bedrooms on the same lot size. If some have more bedrooms, bigger space or a better piece of land, you can show that the other house is worth more and that this house should be valued lower.

When looking at comps focus more on *completed sales* and not *for sales*. In other words, look at what homes in the area of a similar size and type have actually sold for in the last 3 months, 6 months or 1 year. That will help give you a starting idea of what homes are really worth.

Second, look at what the others are currently selling for. In a flat market, they may be overpriced and not selling. In a rising market, it may be normal that ones for sale today are more expensive than those that sold one year ago, and that needs to be factored in. Similarly, in a

Your bid should be based on VALUE and not on price.

Don't bid on a house you cannot afford.

What good does it do anyone to have a lowball bid accepted when you can't even afford that amount?

declining market, prices a year ago will not likely be obtained today, so again, current prices will be factored into your consideration.

Once you have an idea of what this house is really worth in relation to other homes – its real *value* – then you should start to look at price.

Can You Afford this House?

Now that you've identified what you believe is a fair value, you would like to buy the house at a price below value. But even if you were able to get an accepted offer, could you afford it? If you aren't sure, turn back to sections ____ and ____.

Suppose the seller is asking for \$300,000 for this home and you are prepared to offer \$270,000. Can you afford the mortgage you would take on \$270,000 plus the taxes (which vary by house) plus insurance, maintenance costs and the rest? While it is great if you can get the seller to agree to a lower price, it doesn't do either of you any good if you can't afford to move forward.

Is the Asking Price Reasonable Based on Value?

Now that you have an idea of what homes are worth in the area, how is this house priced? Does it seem to be above market? Below market? Right in line?

If the house is below market, has been on the market for some time, and still has not sold, take a good look at the home and make sure you have not missed problems that other people may have found.

This may be the best situation to make an offer that is well below the asking price. How far below? That depends upon your situation but 5% to 15% may not be an unreasonable place to start (that doesn't mean you will buy it for that price, it is just a place to start). In some situations you may even be able to bid less – perhaps the home has been on the market several years; perhaps it is part of an estate sale and the children just want to “get rid of that house” and cash out; perhaps the seller is a motivated seller (needs to move quickly, needs cash for a business, etc.).

Your offer will generally be less than the asking price, except in a particularly hot market, on a house that is significantly underpriced or on a house that is in tremendous demand and is part of a bidding war that is worth bidding on. Remember that your offer should be based on value, not the asking price. Yes, you need to address the asking price,

but what you are willing to pay should be based on what it is worth. Whether you are off from their asking price by a little or a lot, you need to put together a reasonable offer with justifications of why you should pay less. What are some justifications? Here's a sample scenario:

Mr. Jones – We really do like your house. However, there are several problems that need to be addressed. There are leaks in the roof and it needs to be replaced. There is structural damage outside the garage wall, and the electrical needs to be upgraded. While I like the house, I don't think we can justify \$300,000 given the work that needs to be done... that's what homes are selling for in the area that don't have these problems. Given the costs to bring the house up to speed, we'd be prepared to offer you \$255,000.

If you look at the discussion, we've offered 15% less than the asking price and provided justifications as to why we should pay less. That doesn't mean the seller will automatically say "yes," but you have provided support for your offer. You've also shown that you've found problems that other buyers will likely find as well. At this point, you could expect them to come back with a counter offer that you would evaluate and determine if it represents a good value.

Where can you find comp prices? If you are using a real estate broker they should have access to a lot of data. They use comps all of the time to help price houses on behalf of sellers and should be able to supply you with similar data. You can also get information from public records (such as the county recorder's office) as well as records from title companies (title companies tend to have more up-to-the-minute data than government offices).

XV. Putting Together an Offer Letter

Offers are generally made in writing to the other party. A real estate broker or your attorney can help you put together an offer letter. Offer letters are also available online; we've avoided including a specific offer letter here because of the various forms it may take in different parts of the country.

What Goes In The Offer Letter?

Generally an offer letter will include several items:

- The purchase price
- The amount that you are going to be putting down on the purchase price
- The size of the mortgage you are going to take
- The terms of the mortgage you are going to seek (for example, a 30 year fixed mortgage at a rate not to exceed 6.50%)
- A proposed date to close on the sale
- The *good faith deposit* you will be giving the buyer, to be held in escrow, if the offer is accepted.
- Expectation of what is included with the purchase
- The offer should be subject to a satisfactory inspection and appraisal report

The Purchase Price

This is the amount that you are willing to pay for the home. Depending on market conditions, this may be less, the same as or more than the asking price.

The Amount You Will Put Down on the Purchase Price

This is how much "cash" (really a bank check) you will be paying at the closing, with the rest paid by a mortgage. If you are not taking a mortgage it is referred to as an "all cash deal" (which is extremely

The more specific your offer letter, the better chance you have of getting it accepted.

Vague offer letters will simply get a response asking for more details and information.

attractive to a seller in a strong market). This is not the *good faith deposit* you are giving them; rather, this lets them know how much you will put down and gives an indication of how easily (or difficultly) you will obtain a mortgage.

The Size of the Mortgage You Are Seeking

How much should you borrow? Generally, it is the purchase price *less* the down payment *plus* any additional money you will be borrowing (for example, to renovate the home). You do want to include this in the offer and the contract. If you indicate you will seek a \$200,000 mortgage and instead seek \$250,000 so you can renovate – and you are then declined for the mortgage – you are technically in breach of the contract and may forfeit your good faith deposit.

The Terms of the Mortgage You Are Seeking

Here we refer to the details of the mortgage – whether it is fixed rate or variable, the amount to be borrowed and the number of years to repay. If you apply for a mortgage other than what you agreed to, you may be in breach of your agreement and may forfeit your good faith deposit.

Proposed Closing Date

This is the target date for the closing of the sale. Often there is a 14-30 day window / grace period in the contract that accounts for delays in closing without either party being in breach. *Note: when you seek your mortgage commitment the mortgage company will ask your closing date.* Be sure to let them know the date *and* any grace period so they can “lock in” your rate for as long as needed. Additional fees may apply for longer lock in periods.

Good Faith Deposit

When you tender an offer you may tender it with a good faith deposit or tender the deposit after the offer is accepted (exactly how it is done is really a factor of local practices). The good faith deposit the seller looks for is typically 10% of the purchase price, but this can often be negotiated down significantly, especially with a motivated seller. The funds must be held in escrow. Generally this is done with the attorney holding the deposit, although practices may differ in various parts of the country. You do not want to give a check for \$30,000.00 made out to the seller to the seller; while we’re not commenting on the honesty of a person we’ve never met, we could not feel comfortable doing it.

Many deals have fallen apart over the extras.

Be sure to list everything you think is included in the sale.

The terms of the offer should lay out several conditions that require the buyer to move forward; if the conditions are not met, the buyer should be able to back out of the deal and get his deposit back.

Items To Be Included in the Sale

This is a critical step that some people miss, and it later leads to battles with the seller. It can be easily resolved up front through conversations prior to the offer being tendered and, if not covered before hand, by specifically listing them in the offer.

People often have different ideas of what they want and what they expect to get when they buy a home. Various fixtures, appliances, wall coverings, yard furniture and other items can be the subject of dispute.

Here's a list of common ones, but be sure to itemize anything in the house that you like that the seller may be thinking about taking with them:

<input type="checkbox"/> Chandeliers	<input type="checkbox"/> Wall Sconces	<input type="checkbox"/> Curtains
<input type="checkbox"/> Mailboxes	<input type="checkbox"/> Swing Sets	<input type="checkbox"/> Built In BBQ
<input type="checkbox"/> Kitchen Appliances	<input type="checkbox"/> Antique Fixtures	<input type="checkbox"/> Shower Heads
<input type="checkbox"/> Fancy Door Knobs	<input type="checkbox"/> Fancy Faucets	<input type="checkbox"/> Sinks
<input type="checkbox"/> Dog House	<input type="checkbox"/> Shed	

Some of the items on the list may seem silly but you don't know what the seller has in mind. Remember – it has been their home for years, perhaps decades, and they will have trouble parting with it. Our goal here is not to create tension, but to make sure that the seller and buyer are on the same page. If they are not the parties need to agree as to what is included and the seller buyer would likely reduce the offer if certain items are excluded from the sale.

Offer Should Be “Subject To” the Inspection Report

When you make an offer it should always be “subject to” several items. The more items you can get in the agreement the better. The offer should be “subject to” a satisfactory inspection / engineering report. You will have an inspector come in (at your cost) and do a thorough inspection of the home. This can take 2-4 hours, depending upon the

inspector and the size of the home. If the inspector finds negative items in the house, you want the right to rescind the offer and get the deposit back.

Don't be surprised if the other side's attorney puts language in about the amount of problems or cost of the problems. A small item could constitute a problem but, in all fairness, may not be enough to rescind the agreement. Again, focus on what is reasonable.

Offer Should Be "Subject To" a Satisfactory Appraisal

Lenders require that the sale be subject to a satisfactory appraisal. The focus is the value of the house determined by the lender's appraiser. You may want an independent appraisal or simply rely on the appraiser used by the mortgage company. If the house isn't worth a certain price, then you want to be able to rescind.

XVI. Ask About Defects and Problems with the Home

Don't be afraid to ask about problems.

While sellers will generally not volunteer information, they should be honest if you ask.

Some local laws may require disclosure of certain defects. Others may require that the owner answer honestly if asked. Since we cannot cover all bases here, you should certainly consult with your attorney or real estate broker to determine what must be disclosed or answered in your locality. Nonetheless, below are a series of questions you should ask, have the owner answer and sign off on. If they answer falsely, you may have a claim of fraud against them.

- If the property is not occupied, when was it last occupied?
- Is this currently a rental property?
 - If Yes, has the tenant left or when is the tenant scheduled to leave?
- Is part of the property rented out or leased to any third party?
- Is any part of the property subject to a lease?
- Has this been a rental property in the last 5 years?
- Have there been any claims of adverse possession by third parties?
- Does part of the premises infringe over the property lines into someone else's property?
- Are you aware of any property disputes?
- Is the property on or near a landfill?
- Has any excavation work been done in the last 5 years and, if so, what?
- Has there been any shifting of the property (including land settling, sinkholes, mudslides from hills, etc.)?
- How old is the roof?
- Is the roof covered by any warranty? Is it transferrable?
- Are there any problems – now or in the past – with the roof, gutters, the drains from the gutters or anything related?
- Have there been or are there currently any problems with rodents, vermin, pests, termites or any other wood boring creatures?
- Is there a contract in place to protect against this by a licensed pest control company (such as Terminex™)
- If there is an alarm system, is it currently in use and with which provider?

You want to know this in case you want alarm service ... generally other alarm companies will want you to install their equipment rather than use existing equipment.

- Has there been any major damage (such as water damage, wind damage, fire damage) that has required repair and, if so, what repairs?
- Have there been any structural issues with the foundation, the floors or the walls in the house? If repairs have been made, when were they made & by whom?
- Have there been or are there still water problems in the basement or crawl space, including leakage, dampness or seepage?
- If the house has a cesspool, have there been cesspool problems requiring repair or are there current issues that may warrant repair? How old is the cesspool? When was it last cleaned or replaced?
- Have any additions or modifications been made to the house? If so what?
- Did you have the permits in place to allow that type of work?
- Do you have a C of O (Certificate of Occupancy) covering all modifications, renovations or structural changes that are required to have a C of O?
- Have all modifications been in compliance with zoning laws and building codes?
- Is the water supplied through public or private sources? If it is a well, when was the well dug and have there been any issues?
- Is sewage through public sewers? If yes, have there been any issues requiring repair or are there any present issues that may require repair?
- Are you aware of past or presents leaks in the water or sewage systems?
- Is there a gas line (natural gas) to the property? Has it been serviced? Has it ever had problems?
- If you use gas from a tank (such as propane) to heat the house, power the stove, etc., who services those tanks and how often? Have there been problems with those tanks either presently or in the past?
- Are you aware of any toxic substances found on the property?
- Has anyone ever died in the house?
- Have any crimes been committed in the house?

XVII. Let the Negotiations Begin!

Know what you are offering and why.

Picking a number out of the air is not persuasive to a seller.

Negotiating the deal is one of the most stressful parts of the home buying process. Many people are uncomfortable discussing money. Others are afraid of being pushed around or taken advantage of. Still others enjoy the challenge of negotiations. Whichever group you fall into, don't worry – we're here to help.

Negotiate from Strength with Justifications for Your Offer

When you are negotiating you need to do more than throw out numbers – you need to justify your numbers to the other party. You need to get them to agree with you on your points, and if you succeed, it will drive them closer to your target price.

Here are six additional tips to help you negotiate more effectively:

First, what is the seller's motivation to sell? If they "just want to move" they aren't very motivated. In contrast, if they *need to move* – either because of job relocation, they need to buy another house and the original buyer for this house fell through, a pending divorce, a family situation, financial reasons or any reason whatsoever – they are motivated to sell. No, you can't say "sell it for less because you are motivated" but you can say "I'm offering this price and I'm prepared to close quickly" (if you are).

Second, let them know you are a good candidate. One fear sellers have is that the buyer won't actually close on the house. If you have a great credit score, let them know. If you are putting down a significant portion of the purchase price and require a smaller mortgage, let them know. If you have been preapproved for a mortgage of a certain level, let them know. All of these things make you a more attractive buyer and will give the seller additional motivation to accept a lower price from you.

Third, has the property been on the market a long time? The longer it has been on the market, the more anxious they may be to sell. They may realize that they are over priced and be more willing to cut their price to match or come close to your offer.

Fourth, have they already cut the price in the past? If they have they may be more willing to cut it again in the future. The first price cut is often the hardest. If they know they are overpriced, and cut once, they may second guess and think they are still over-priced.

Fifth, take a friendly but serious tone in the discussions. You want them to know you are serious but you don't want to be adversarial. Once they sense hostility the "walls go up" and your job just got ten times harder. The softer approach often works better.

Sixth, don't tip your hand. You can give serious leverage away by making the seller think *you are in love with this house*. Don't tell them that "Johnny will be in this room and Sue will be in that room." This tells the seller that, in your mind, it is a done deal, and they may be able to hold out for more. Also, do not discuss what you would do with this room ... if the buyer overhears you saying "we can rip out and renovate this bathroom" you are telling them (1) you are already picturing yourself in the house, and (2) you can afford to rip out and renovate the bathroom. Sure, talk about these things with your significant other, but save the discussion for the car, away from the seller and the real estate brokers.

If you will be getting a mortgage, only work with an established reputable mortgage company.

Get them involved early – they can be very useful even while you hunt for a home!

XVIII. Getting Your Mortgage

If you have an accepted offer, congratulations! Now you need to get your finances together and secure a mortgage (assuming you are not paying *all cash* for this purchase).

Contact Your Mortgage Broker or Mortgage Banker

You should have already contacted a mortgage broker or mortgage banker months ago to let them know you were looking for a home and to become prequalified. Now they will pull your latest credit report information and give you a firm quote on a mortgage based on current rates, the purchase price and your credit (called a *commitment letter*).

You will have to decide on the type of mortgage you want, and there are many to select from. *Note: in your agreement with the seller you likely set a condition for a mortgage of a certain type and size. Be sure to apply for the same type of mortgage or you may be in breach.*

Types of Mortgages

There are many types of mortgages available, including:

- **Fixed Rate Mortgages** – these are the most common, such as the “30 year fixed.” Here, you pay a set interest rate with set payments for the next 30 years. Generally you can prepay, although there may be prepayment penalties if prepayment occurs in the first or second year. Be sure to read the language of the agreement carefully. We generally recommend this type of mortgage because it gives you the security of knowing exactly what your payments will be for the next 30 (or 20 or 40) years.
- **Adjustable Rate Mortgages (ARMs)** – these are very popular because of their low initial interest rates. They have come under fire in recent years because borrowers could afford the short term payments but could not afford the payments when the interest rates adjusted higher. This does not give long term protection but does charge lower interest rates for the first 1-10 years. You would only consider this if you are confident you are only living in this home for several years and will then be moving again.
- **Interest Only Mortgages** – these allow you to pay only the interest owed and not pay down the principal during the *interest only period*. After the interest only period you will pay

both principal and interest. Like the ARMs above, you need to be sure you can afford the payments when they include principal and interest. Some people choose this because of the low up front monthly payments, freeing up cash to allow them to renovate, pay down other debts, etc. Again, be sure you can afford the full payment once the interest only period lapses.

- **40 and 50 Year Mortgages** – some companies offer fixed rate mortgages with a longer payback period – 40 to 50 years. This lowers your monthly payment but you will be paying for an additional 10 or 20 years – at a time in your life when you may be retiring.
- **Bi-Weekly Mortgages** – here, you pay every two weeks rather than every month, and pay an amount equal to $\frac{1}{2}$ of a month's payment. Because there are 52 weeks in a year, you are making 26 payments of $\frac{1}{2}$ month payments or the equivalent of 13 months of payments in 12 months. In other words, you are making one extra payment a year that chops your principal (the amount you owe) significantly. You will pay it off 8 years earlier and save 23-30% in interest payments. To do this you have to be able to afford that extra payment. Spreading it out to every two weeks softens the blow.
- **Bi-Monthly Mortgages** – Beware – These play off the concept of a biweekly mortgage with the "bimonthly" mortgage. Here you pay twice a month. You are making 24 payments a year (not 26 as with the biweekly mortgages) so you are not paying down any faster. It still takes 30 years to pay down and the savings, if any, is minimal.

Do You Want to Pay Points?

Often times a mortgage company will give you the option of "paying points." What exactly are "points" and is it something you should do?

Points, in essence, are a prepayment of the principal of your mortgage (the amount you owe not including interest). By paying down points you are buying a cheaper interest rate from the bank. For example, if you borrow \$100,000 and pay 2 points, you are paying \$2,000 to borrow \$100,000, netting yourself \$98,000. Points may also be tax deductible – you need to check with your accountant.

But do points make sense? It depends. Following is a table comparing different mortgage options. These are fictitious rates shown only as an example to help you see how points work. The actual numbers will vary

by mortgage company. Suppose you are borrowing \$300,000 on a 30 year fixed rate mortgage:

Points Paid	Interest Rate	Amount Borrowed	Monthly Payment	Savings over 30 years
0	6.00%	\$300,000.00	\$1,798.65	
1	5.75%	\$300,000.00	\$1,750.71	\$17,258.40
2	5.50%	\$300,000.00	\$1,703.34	\$34,311.60

Before you ask, yes, you need to pay those points (in this example, 2 points = \$6,000) at closing. If you don't have enough money to pay the points, you can borrow a little extra:

Points Paid	Interest Rate	Amount Borrowed	Monthly Payment on \$100,000	Savings over 30 years
0	6.00%	\$300,000.00	\$1,798.65	
1	5.75%	\$303,000.00	\$1,768.23	\$10,951.20
2	5.50%	\$306,000.00	\$1,737.43	\$22,039.20

As you can see, in the above example, it is worth borrowing a little more to pay down the points. In other examples with different interest rates, the savings may not be as significant.

Your accountant can review offers like these for you, plug them into his system and tell you, based on your tax bracket, based on the amount of discount you are receiving against the interest rate, whether it is worth it for you to pay points.

Get Your Documents in Order

In order to get a mortgage you will generally need to produce documentation to establish you're your credit worthiness as well as your current financial situation. It is one thing to claim that you have 10% to put down on the home; it is another to show the bank statement showing you have the money.

- Tax Documents and Income Statements You may be asked to produce W2 forms or 1040's for the last two years to substantiate your income claims. You may also be asked to produce recent pay stubs to show that you are still earning at the income levels you have shown in your tax returns. You can include regular income, self-employed income, interest income, rental property income, commissions, interest, stock trading income or any other income you have. Retired individuals will

want to produce statements regarding their pension plans and social security award letters. You simply need to be prepared to prove what you claim.

- Financial Statements You will need to produce bank statements, statements from investment accounts (such as stocks, bonds and mutual funds) and 401K statements, generally for the prior two months. As we indicated earlier, avoid large transfers immediately before you get a mortgage; you may need to provide documentation explaining why certain accounts have had a large jump in value.
- Bankruptcy Information If you have filed for bankruptcy in the last seven years you will need to produce copies of your bankruptcy documentation for review.
- Gifts If you will be receiving a gift used towards the purchase of the home this needs to be explained and documented.
- Credit Report Issues Unresolved credit report issues will likely require a written explanation if you hope to have those discounted when the bank conducts its analysis in structuring your mortgage. They may not accept or agree with your written statement, but if outstanding errors exist, you certainly want to take all steps to mitigate the credit report's damage!

Do You Need a Cosigner? You May Want To Plan Ahead

Some people, especially with their first mortgage, may need a *cosigner*. This is sometimes a parent, relative or friend. You should not assume that someone will want to cosign a mortgage for you. The cosigner is responsible along with you for repayment of the debt. If you default on the mortgage, they are liable.

A bank may want a cosigner for any number of reasons:

- You have bad credit or insufficient credit.
- You do not show sufficient income to be able to repay the debt.
- There is limited equity in the house (meaning you are looking to finance a higher percentage of the purchase price) increasing their risk on the mortgage.

A cosigner is equally liable for your debt and your mortgage will appear on their credit report as a debt they are liable for. This can potentially hurt their opportunity to get their own mortgage, since they will have outstanding liability on yours. Having someone cosign is a major request but may also be your only option to get a mortgage.

Mortgage Costs and Fees

Many first time home buyers are surprised to learn about the costs associated with getting a mortgage. This can often range from 5% to 10% of your mortgage amount and needs to be paid to get the mortgage. You may be able to borrow additional funds to help cover these costs, but that will increase your debt load, your monthly payments and may even push you to a slightly higher interest rate depending upon your *debt to equity ratio* (discussed previously) and *LTV* (loan to value, also discussed previously).

On the following page is a list of potential fees you may face. You may also see some that are not on this list or are similar fees under a different name depending upon your locality.

Try to find out about all fees before you head to the closing.

Some include setting up reserves, such as a property tax reserve, where a certain number of months of property taxes are held in escrow by the bank to ensure that taxes are paid promptly.

Pre-Approval	At Closing
Appraisal Fee	Tax Service Fee
Credit Report	Closing / Escrow Fees
Inspection Fee (a 442 inspection)	Title insurance
Pest Inspections	Notary fees
Home Inspection	Recording Fees
	Loan Tie-In Fee (related to escrow services)
	Sub-Escrow fee (by title insurance company)
	Home Owner's Association Fees
	Home Warranty Transfer Fees
	Flood Insurance Fee
	First Month's Interest Payment
	Taxes for a Pro-Rated Period
	Reserve for Taxes
	Reserve for Insurance

As was discussed in a prior section, the selection of the right mortgage broker is critical. Don't look just at published rates in the newspaper; some companies publish "teaser rates" that are completely unrealistic and are not obtainable. Others publish rates they simply do not honor. You will want to work with someone experienced in your area that *specializes in purchase mortgages*.

On the following page is the list of mortgage companies in your area that are established, have a track record and specialize in purchase mortgages. This information is repeated from the earlier section in case you (like many people) skip through sections of books as they read.

In no particular order, these mortgage companies include:

ING Direct

www.ingdirect.com

We do business online, over the phone and by mail. Without the overhead and high operational costs of other banks, we can pass those savings onto customers.

Countrywide

www.Countrywide.com

Countrywide is a diversified financial services company focused primarily on real estate finance and related activities. Since our founding in 1969, our mission has been to help individuals and families achieve and preserve the dream of homeownership. Today, this cornerstone principle continues to guide and drive all of our business decisions. It has also produced a high-performance, high-integrity culture that's unique to Countrywide and draws many of the best and brightest in the industry to work here.

Leadership: Countrywide is America's #1 home loan lender.* In fact, we're a leader in nearly every aspect of real estate finance. We offer our customers a level of expertise, product selection, and service that's unmatched in the industry.

Ditech

www.Ditech.com

97% of ditech customers give us the highest satisfaction rating because we understand that no person wants to be treated like a number. They just want things to add up in their favor. We want that for them, too.

E-Loan

www.eloan.com

Our position is simple: Your personal information is your private property. Named America's highest ranking online financial services company for privacy, we never sell or share your information with third party marketers. In fact, we won't share it with anyone unless you explicitly instruct us to do so.

Maybe that's why The Customer Respect Group, an international research and consulting firm that focuses on how corporations treat customers online, named E-LOAN number 3 out of 464 major corporations in matters of protecting privacy.

You should always seek professional help with a real estate contract.

Don't be afraid to spend a few hundred dollars on a lawyer – they can help you avoid hundreds of thousands of dollars in mistakes!

Going To Contract

Congratulations – you're now moving into the contract phase of the process. Here, the lawyers will draft up the documents that will serve as the contract for the transaction and govern the closing of sale. In some jurisdictions, standard forms are used and the transaction is handled by a real estate broker or by the individuals. You may want to use an attorney anyway, to make sure that everything is done correctly and recorded with the county correctly.

At this stage, hopefully you have resolved the major negotiation issues – price, closing date, move in dates, items to be included, etc. The attorneys may stir up a couple of issues, so do not be surprised. They've likely handled hundreds or thousands of transactions and know what issues to include. Just don't let them kill the deal over a trivial issue. To them it is a transaction; to you it is a new home.

Various states use different types of legal documents to handle the sale of a home. We will not address those here as they involve specific legal issues particular to your area. However, we are going to suggest a few general concepts you should consider when going to contract:

- Make sure all items to be left in the house are enumerated in the contract
- Make sure that if the seller is responsible for repairing certain items, that this is indicated in the contract *and* that if he does not do them before closing that an adjustment of \$_____ will be made to the purchase price
- Make sure the contract indicates a move out date (i.e., typically the seller moves out on the day of the closing) and that if he "holds over" that he will pay rent of \$_____ per day. This figure is typically a large amount, designed to be a penalty to push the seller out. If rents in the community are \$3,000 per month (\$100 per day) then you may want a hold over penalty of \$300 or \$500 per day. You don't want to turn into a landlord; you want them out of your new home.
- Make sure provisions are in place to restrict the seller from making modifications to the home and from removing or replacing items that are to be left in the home.

Get your own home inspection, in addition to the one the mortgage company will do.

Only use someone licensed and qualified in your area.

XIX. Home Inspection

Now that you are *in contract* you need to have an inspection done on the home. You may be asking yourself *why didn't I do this before signing the contract?* The answer is: until you have a signed contract, you don't have a deal, and you will want to make sure you have a deal before you go through the expense of a home inspection. It may cost several hundred dollars for the inspection (the rates depend upon your area) but it is money well spent. Many people have fallen in love with a new home, only to learn that it is a disaster waiting to happen.

You will want to work with a licensed and certified home inspector. They are specifically trained on conducting home inspections; many are retired engineers and contractors. They generally work off of an extremely detailed worksheet, sometimes 3 to 10 pages long, identifying all of the things they need to inspect. In broad strokes, they may start outside and evaluate:

- The property
- The exterior of the house for sagging, buckling, warping
- The roof
- Brickwork
- Stairs
- Patios and decks
- The garage
- The doors

Once inside, the inspection continues in every room of the home, checking things such as:

- Walls and ceiling
- Floors for warping, damage, signs of settling and more
- Electrical outlets and wall switches
- Lighting fixtures
- Kitchen counters and appliances
- The electric panel, both for its condition as well as its load (is the panel not capable of safely delivering enough electricity for this home)
- Plumbing, fixtures, toilets and sinks
- Signs of gas leak, oil leaks around appliances and the heating system
- Signs of termites and rodents

- Functionality of the heating and cooling systems

This is not a complete list of what they check for; they should supply you with a list of the items they inspect in their inspection report, which may be completed on the spot or sent to you several days later “written up” based on the notes they take during the inspection.

Remember that the inspector is not guaranteeing your home is defect free. Rather, his or her job is to objectively inspect the home, identify every defect found and list them. It is up to you to decide whether or not to move forward with the purchase.

Immediately before closing you should perform a final “walk through” to make sure everything is still in good condition (have the sellers broken or removed anything they should not have). Bring your inspection report with you to make sure everything is as expected. If new defects are found, you will need to bring them up ASAP or at the closing if you are doing the walk through on the same day, either for an adjustment to the purchase price or to rescind completely if damage is substantial.

XX. Prior to Closing

The weeks before your closing will be a busy time and you will need to be prepared. You will need to gather information, finalize your finances *and* prepare for the reality of having a new home. Most people move the same day or within days of a closing and it is stressful. If you are not prepared, it can be a nightmare.

Get your documents together several days before the closing.

Make sure your finances are in order. Check with your mortgage company at least one week prior to the closing to make sure they have all of the documents they need and that you know everything they want. They may have a checklist of items that they need; ask them to email or fax it.

Here are some common mistakes that can hold up your closing:

- Not bringing your driver's license / photo ID
- If you are buying jointly with another person, them forgetting their ID
- Not bringing a certified check for the balance of what you are putting down towards the purchase price
- Not providing a power of attorney if you are not attending the closing
- Not having a power of attorney if the joint purchaser is not attending the closing
- While your attorney should handle it, make sure that any powers of attorney are in a form acceptable to the seller's attorney and to the bank's attorney

In addition, you need to plan ahead for services you will need to order before you move in. These services should be ordered in advanced and set to be "turned on" on the expected move in date:

- Finding and selecting a moving company
- Notifying your landlord/association that you intend to move out, if necessary. If you are in a rental, condo or co-op, the landlord or association may have rules about moving dates, moving times, etc.
- Electric Service
- Gas Service
- Oil Service
- Telephone Service

- Broadband Internet Service
- Television Service, whether by cable, satellite or fiber optic
- Alarm Service
- Garbage Collection Service (if not provided by the municipality)

You will also want to have change-of-address forms (available from the post office) filled out and ready. But remember - do not send them out until after the closing; you do not want to reroute your mail if the closing falls through!

We anticipate launching a service later this year that allows you to order most or all of these services from one screen, saving you hours and hours of work. Check our website for complete details at <http://www.HomeBuyersGuide.com/services>

XXI. The Closing

Congratulations. The big day is here and you are about to become the owner of a new home. It is an exciting day – and potentially a long day. Try to get a good night's rest the night before (not likely, but try) and be sure to have a solid breakfast that morning. If the closing is in the afternoon, be sure to have lunch first. Closings can last hours and can be extended if documents are missing, etc., and you will feel better if your stomach is not grumbling at the closing table.

Don't Forget to Bring These Items

Be prepared for the closing. While you can certainly get up and stretch your legs, you are there for several hours and will be much better off if you are fully prepared. Below is a list of items you need to bring – both for the closing and for yourself – to make things go smoothly.

Items needed at the closing include:

- A bank check made out as indicated by your attorney in the amount you are told
- Additional personal checks for small adjustment items (in case the original amount is not exactly correct, to adjust for amounts due because of a closing delayed by one or more days, for fees not incorporated in the statements earlier, etc.)
- Your photo ID
- The *Power of Attorney* for any buyer not attending (this should be in possession of your attorney, but it certainly doesn't hurt to bring an extra copy)
- Any other items listed by your attorney, your mortgage company and your real estate broker that you need to bring to the closing
- Items to make you more comfortable:
 - Breath mints / chewing gum (don't laugh ... bad breath in a conference room is not a good thing)
 - Allergy medicine, Tissues
 - Aspirin, Advil or Tylenol for anyone who gets a headache during the closing
 - A bottle of water

At the end of the closing, it is often customary to tip the person handling the recording of the documents. This person often works for the title company, is responsible for getting your documents in order and properly recording everything with the county clerk.

It is not mandatory but is a good gesture and you certainly want to have an up-beat ending to the closing with the person who literally holds the ownership of your home in their briefcase.

XXII. Home Ownership

Congratulations on your new home! You are now a home owner with all of the excitement home ownership will bring. In the sections below we'll touch on a few topics that may make things easier for a new home buyer. These suggestions from the collective experience of our team here as home owners. If you have suggestions you think we should include please feel free to email us at

suggestions@HomeBuyersGuide.com

Home Centers

During the first months, you will likely visit the local home center (whether Home Depot, Lowes or another chain or independently owned store), perhaps several times in a day. We've all been there, have bought many things and returned many things! Here are a few tips:

- If you are going to be doing a lot of work, spend some time and make a big list. Many home stores offer you a store credit card with 10% off your first purchase. If you are purchasing air conditioning, windows, doors, lumber and more, the bill can get quite expensive. We know of one person whose first purchase was over \$20,000 and saved \$2,000 on the bill. Offers vary, so check the details.
- At different times different home centers have offered a 10% off coupon for new home buyers or first-time home buyers. Check with the local home center to find out if this is available and what you have to do to qualify.
- Try to make a written list of everything you need before you go. This sounds silly, but we've all gone, picked up a few items and forgotten one that required a return trip.
- Keep all receipts. Start a file and keep all receipts, no matter how small the purchase. When you need to return things, and you will, receipts may be required by the store.
- Buy extra of whatever you need. Think that 8 pack of screws is enough? Buy 12 or a box of 25. Need six 2x4's? Get eight. You may cut one badly or may not have measured correctly in the first place. You can (almost) always return the extras and will save yourself a lot of trips back for just one item.
- If you are making a big purchase and they offer delivery service, take it. Save your back and save time loading and unloading

when the home center will send a truck with a crew to do it for you.

Renovations – Now or Later?

Decide which renovations must be done now and which can be done in three months, six months or next year. If you are doing a great deal of work, figure out which items are the most important and which things to do at what times to keep your house as usable as possible.

If you are renovating your kitchen, you will be cooking and eating in the dining room or living room. If you put all three rooms under construction at once, where will you live? If you can, plan so that you can use at least part of the house during construction.

XXIII. Renovating Your Home

If you have renovations to be done as soon as you move in, be sure to have things lined up in advance. If you are using contractors, try booking them weeks, a month or more before the project. If you contact them last minute they might not be available or demand a large premium. The more you can set up in advance, the better.

If you are doing the work yourself, make sure you have adequate time to start and complete projects. Break them down into small tasks that can be completed in a day rather than large tasks that take a month. For example, if renovating the living room, plan a day to rip out carpeting, then a day for moldings and then another day for painting. Define tasks that can be completed in steps so the whole room is not left “up in the air” and you are left feeling overwhelmed.

Hiring a Contractor

For many renovations you should hire a professional and licensed contractor. Be sure they are licensed and insured before you sign anything with them. This gives you an added level of protection in case something goes wrong, including one of his or her workers being hurt on the job in your home!

Before hiring a contractor you need to do your homework. You need to find a reputable contractor who has been doing this work for a number of years, has been doing work like this in your community and who can supply multiple references for you to call. You may like them tremendously when you meet with them, but check those references! Even the nicest contractor can consistently run late or deliver sub-par work, so speak to prior clients and see how happy they are with the results.

You need to examine the work to be done and decide if you can actually live with that kind of construction. Painting may take days or a week, depending upon the number of rooms. Redoing hardwood floors can require you to leave your house for a week or more. Structural work – moving walls, adding expansions and the like can run weeks or months. Are you emotionally prepared to have strangers in your house for that long? It can be stressful so make sure you know what you are getting yourself into.

Here are some tips on selecting a contractor:

Do not hire any contractor without speaking with at least three references

If at all possible, go see prior jobs the contractor has done in your area.

- Ask to see some of their prior projects. Many have photo albums of the work they've done
- Ask to see their contract and warranty. What is the guarantee period for their work?
- Ask for examples of local projects they have done. If you are looking for exterior work (such as expansions, dormers, brick work, etc.), ask them for addresses so you can drive-by and look at the quality of the work
- Ask for at least three references and call them. The biggest mistake people do is to get references and not call them, assuming they will have good things to say. You'd be shocked to find out how often the contractor thinks he is giving out a good reference and gets ripped apart by the person on the other end of the phone.
- Ask for all costs to be broken out and itemized before you start. In all fairness, if you change the scope of work once it starts, such as adding a wall, adding outlets, etc., then it will cost more. All prices must be broken out so you and the contractor are *on the same page* and both know what to expect.
- Put in a completion date in the contract. Again, your modifications can delay things, but the contractor should still be able to give you hard targets and, if you can negotiate it, a penalty clause if he completes late and a carrot if he completes early or on time.
- Be careful how much you put down and how much you pay at what phase. We recommend holding back 15%-25% of the amount due until completion of the project, with other payments being made at various milestones, such as 20% on contract signing, 20% on delivery of materials, 40% at some measurable *substantial completion* and 20% on full completion. Many contractors have walked away from projects that were 80% finished because they already had received 95% of the money and it wasn't worth the extra 5% to come back and finish! Obviously, this is not a quality contractor, but you need to do your homework and find out who has a good reputation before you start.

House Shopping Checklist

House shopping this weekend? Bring these worksheets with you and compare houses side by side. Print as many copies as you need!

General

	House 1	House 2	House 3
Address			
Town or City			
Realtor Used			
Type of House			
Size of House (Sq Ft)			
Lot Size			
Asking Price			
Taxes			
Time on Market			

About the Home

	House 1	House 2	House 3
One Family			
Multi-Family			
“Mother-Daughter” (basement or upstairs apartment)			
Condo			
Co-Op			
Townhouse			

Classification

	House 1	House 2	House 3
Colonial			
Split Level			
Ranch			
Bi-Level			
Contemporary			
Modern			
Victorian			
Cape Cod			
Cottage			
Other:			

Construction Information (check all that apply and takes notes as needed)

	House 1	House 2	House 3
Exterior > Brick			
Exterior > Wood Shingle			
Exterior > Vinyl Siding			
Exterior > Stucco			
Exterior > Stone			
Exterior > Other:			
Roof > Asphalt			
Roof > Shingle			
Roof > Adobe			
Roof > Other			
Garage > # of Cars			
Garage > Attached / Detached			

Features of the House

	House 1	House 2	House 3
"Master" Bedroom with Bath?			
Bedrooms (indicate size / notes)			
Add'l Bedroom 1			
Add'l Bedroom 2			
Add'l Bedroom 3			
Add'l Bedroom 4			
Add'l Bedroom 5			
Add'l Bedroom 6			
"Full" Bathrooms (tub/shower) (exclude Master Bath if present)			
"Half" Bathrooms (toilet/sink only)			
Kitchen			
Fireplace in Kitchen?			
Separate Eating Area?			
Family Room			
Fireplace in Family Room?			
Formal Dining Room			
Fireplace in Family Room?			
Home Office			
Game Room			
Home Theater			
Home Gym			
Laundry Room / Utility Room			
Storage Room(s)			
Jacuzzi / Spa / Sauna			

Finished Basement			
If Yes, list rooms. If bedroom in basement, make note of whether it is included in bedrooms above			
Attic			
If yes, is attic finished?			
If yes, would attic be 2 nd or 3 rd floor?			
Swimming Pool			
If yes, shape			
If yes, vinyl or gunite			
Yard			
Size			
Playground or other features			
Central Air Conditioning			
Wall Unit Air Conditioning			
If Wall Units, are they included?			
Other notes			

BUDGET CALCULATOR

When calculating what you can afford, start with your current income and then look at:

Mortgage Related

Estimated Mortgage Payments: _____

Less Tax Deduction on Interest Payments: _____

Estimated Real Estate Taxes: _____

Less Tax Deduction on Real Estate Taxes: _____

Estimated Maintenance Fees or Dues: _____

Home / Flood / Fire Insurance Payments: _____

Utilities

Utilities > Phone: _____

Utilities > Electric: _____

Utilities > Gas / Oil / Heat: _____

Utilities > Television / Broadband: _____

Living Expenses

Maintenance / Repairs: _____

Food / Entertainment: _____

Car Payments / Lease: _____

Car Insurance: _____

Gasoline & Car Maintenance: _____

Debt Service

Student Loans: _____

Credit Card Payments: _____

Other Debt: _____

Monthly Expenses: _____

Town	San Antonio	Firm Cases * San Antonio	Olmos Park * San Antonio	Fort Sam Houston * San Antonio	Balcones Heights * San Antonio
Primary Zipcode	78294	78285	78212	78234	78201

Demographics

Population	1,878	59,344	31,775	6,280	47,700
Pop. density	1,975.3	7,818.8	4,513.5	1,169.7	6,694.9
Percent male	60.6%	51.6%	48.7%	54.8%	49.2%
Percent female	39.4%	48.4%	51.3%	45.3%	50.8%
Median age	49.2	29.4	34.8	22.4	33.9
People per household	1.3	3.4	2.3	3.7	2.8
Median household income	\$20,526	\$23,147	\$33,958	\$50,403	\$31,433
Average income per capita	\$20,398	\$9,629	\$23,506	\$15,591	\$14,867

Crime

Violent crime risk index	6.0	5.0	6.0	5.0	6.0
Property crime risk index	8.0	6.0	7.0	2.0	7.0

Housing

Median home value	\$364,700	\$69,000	\$240,000	\$122,100	\$114,900
Median age of homes	27.0	50.0	56.0	55.0	48.0
Home appreciation	1.6%	1.6%	0.5%	1.6%	1.6%
Homes - owned	5.5%	49.1%	40.5%	2.2%	49.5%
Homes - rented	81.5%	43.4%	49.6%	95.5%	42.7%
Homes - vacant	13.0%	7.1%	10.0%	2.2%	7.1%
Commuting by bus	22.1%	12.1%	8.2%	1.4%	8.2%
Commuting by carpool	8.6%	23.9%	14.2%	13.4%	20.7%
Commuting by auto	35.9%	56.2%	68.1%	43.9%	67.5%

Family Facts

Working at home	3.1%	1.3%	2.2%	2.6%	1.1%
Currently married	15.0%	34.7%	34.7%	38.3%	42.5%
Never married	36.5%	32.9%	37.9%	45.7%	30.7%
Divorced	21.5%	11.4%	11.0%	4.6%	12.4%
Widowed	8.7%	8.2%	7.4%	0.3%	7.7%
Separated	18.0%	12.8%	8.5%	11.7%	6.7%
Married - w/ children	1.4%	22.3%	15.2%	68.4%	21.0%
Married - no children	10.2%	19.0%	19.1%	15.1%	20.6%
Single - w/ children	1.9%	16.5%	8.3%	12.2%	12.0%
Single - no children	85.7%	42.2%	58.2%	3.7%	46.8%

* other towns sharing zip code & data. Data may not include all data from other zip codes in same town/city

Town	San Antonio	Firm Cases * San Antonio	Olmos Park * San Antonio	Fort Sam Houston * San Antonio	Balcones Heights * San Antonio
Primary Zipcode	78294	78285	78212	78234	78201

Education

High school graduates	68.5%	41.2%	70.1%	96.0%	62.4%
College degree - 2 year	5.9%	2.5%	4.9%	15.7%	4.2%
College degree - 4 year	11.0%	2.2%	13.2%	20.8%	8.3%
Graduate degree	9.1%	1.1%	11.0%	13.0%	4.5%
Expenditures per student	\$5,680	\$5,865	\$5,776	\$7,771	\$5,870
Students per teacher	15.0	17.0	15.0	11.0	16.0
Students per librarian	855	798	795	622	824
Students per guidance counselor	413	395	411	553	412
Zipcode	78294	78285	78212	78234	78201

Economy

Unemployment rate	3.6%	3.6%	3.6%	3.6%	3.6%
Recent job growth	1.4%	1.4%	1.4%	1.4%	1.4%
Future job growth	21.5%	22.9%	21.0%	22.4%	21.8%
Sales tax	7.75%	7.75%	7.75%	7.75%	7.75%
Income tax	0.00%	0.00%	0.00%	0.00%	0.00%
Cost of living index	98.9	66.0	84.8	71.8	71.2

Health

Air quality	5	5	5	5	5
Watershed quality	70	69	70	70	70
Physicians per capita	327.6	326.3	325.8	325.1	324.5
Health cost index	87.4	87.4	86.5	87.1	87.8
Superfund site index	79	78	78	79	83
UV index	6.3	6.3	6.3	6.3	6.3

Climate

Altitude	596	596	788	788	788
Rainfall (inches annually)	26.8	26.8	30.7	30.7	30.7
Snowfall (inches annually)	0.4	0.4	0.6	0.6	0.6
January avg. low temp	40.7	40.7	39.6	39.6	39.6
July avg. high temp	96.1	96.1	94.9	94.9	94.9
Days of precipitation annually	73	73	82	82	82
Days mostly sunny annually	224	224	224	224	224
Comfort index (during hot weather)	23	23	23	23	23

* other towns sharing zip code & data. Data may not include all data from other zip codes in same town/city