RISMedia

TOP 5

Real Estate Network

Home Buying Q&A

From the advantages of owning a home to understanding closing costs, Top 5's Home Buying Q&A includes invaluable information gathered by the real estate industry's leading experts on home buying.

As the leader in real estate information systems, RISMedia has been an integral contributor to the real estate industry for almost 30 years now. Through our flagship publication, *Real Estate* magazine, our leading business development website, RISMedia.com, and our renowned educational and networking events, RISMedia has long served the needs of real estate professionals. Understanding and respecting the unique needs of leading real estate agents, their clients, and consumers in general, RISMedia recently introduced RISMedia's Top 5 in Real Estate Network®. RISMedia's Top 5 in Real Estate is a membership network of leading real estate professionals providing leading real estate information to consumers. To qualify for membership in the Top 5 in Real Estate Network®, agents must meet specific criteria in five key categories:

▸▸Experience ▸▸Results ▸▸Education ▸▸Information Technology ▸▸Commitment to Community

© 2008 RISMedia's Top 5 in Real Estate Network®

Table of Contents

GETTING STARTED

Q: What are the advantages of owning a home?

A: There are many. Among the most appealing: you own it, which gives you, instead of a landlord, control of your living space. Other benefits stem from potential tax savings and the build up of equity as your property likely appreciates in price over time. Equity can be used to help put children through college, purchase a second home, or make home improvements.

The mortgage interest paid on a home loan is tax deductible, as is the local property tax. If you get a fixed-rate home mortgage loan, you also can invest more wisely knowing your monthly mortgage payment, unlike rent, will not change substantially.

Q: What is the first step to buying a home?

A: Make sure you are ready—psychologically and financially. Ask yourself the following questions: Do I have steady income? Is my debt lower than my total income? Do I have enough money to pay for the down payment and closing costs? Am I working hard enough to improve bad credit?

A house needs constant care and attention. Also ask yourself if your budget will allow for unexpected repairs and upkeep. Once you can honestly answer "yes" to these questions, you are several steps ahead of the game and that much closer to becoming a homeowner. Speak to your local Top 5 in Real Estate Network® member to get you started!

Q: How much can I afford?

A: The general rule of thumb is that you can buy a home that costs about two-and-one-half times your annual salary. Speak with a Top 5 member or a good lender who can determine how much you can afford and estimate the maximum monthly payment based on the loan amount, taxes, insurance and other expenses.

Q: Is it best to save for the ultimate dream home or begin with a less expensive starter home?

A: It can take a long time to save for that perfect dream home. Meanwhile, the market has been flooded with some of the most favorable mortgage interest rates in years. Low rates make housing more affordable, which is why so many buyers have jumped on the home-buying bandwagon.

If you purchase a starter home today, you can potentially begin to build value that can lead to the purchase of a larger, or more desirable, trade-up home in the future.

Q: How do you decide whether to add on to an existing home or purchase a new one?

A: There are a few things to consider, including cost, individual needs, and what will add value down the road. Also important: your emotional attachment to the existing home.

As designer and builder Philip S. Wenz, the author of *Adding to a House: Planning, Design & Construction*, notes, an addition is much cheaper than building a new home and can offer a "new" home without the heartache of moving.

Other considerations from Top 5 members:

- **Can you finance the home improvement with your own cash or will you need a loan?**
- **How much equity is in the property? A fair amount will make it that much easier to get a loan for home improvements.**
- **Is it feasible to expand the current space for an addition?**
- **What is permissible under local zoning and building laws? Despite your deep yearning for a new sunroom or garage, you will need to know if your town or city will allow such improvements.**
- **Are there affordable properties for sale that would satisfy your changing housing needs?**

Explore your options. Make sure your decision is one you can live with—either under the same roof or under a different one.

WORKING WITH A TOP 5 IN REAL ESTATE NETWORK® MEMBER

Q: What is the best way to find a real estate agent?

A: Begin by asking someone that you know. Friends, relatives, co-workers, or neighbors who have recently purchased a home can give you a firsthand account and attest to the agent's professional abilities. Top 5 members not only represent elite results and educational attainment, but also help their clients benefit from the wealth of decision-making information that they can provide. Sometimes an agent you contact will refer you to another one who works more closely with buyers and sellers in your neighborhood. Once you have a list of names, interview at least three agents and ask questions about their community knowledge, professional experience, and commitment—some agents work full time; others only work at nights and on the weekends.

Q: What can I expect from a Top 5 in Real Estate member?

A: Competence, efficiency, and ethics. Top 5 members take the time to qualify buyers and show properties in their price range. They plan showing routes carefully and have pre-inspected most properties. They have a thorough knowledge of financing options, are up on the latest housing trends, and share data on the local housing market and home sales with prospective buyers.

Good agents, like those in the Top 5 in Real Estate Network®, also adhere to a strict code of ethics. They avoid high-pressure sales tactics, refrain from showing properties that do not fit your needs or goals, and alert you to problems about the condition of the property. And they show respect for other agents and real estate firms.

Q: Is there anything I should not tell my agent?

A: Most definitely! Never reveal the top dollar you are willing to pay for a home. It will severely undercut your chance to negotiate the home price with the seller. While an agent may spend a lot of time showing you homes and sharing information, the reality is that he or she works for the seller, who ultimately pays each and every agent involved in helping to complete the home sale. The seller pays the agents in the form of a commission, a percentage of the proceeds from the home sale. The exception is hiring your own Top 5 in Real Estate Network® professional, now commonly known as a buyer's agent or a buyer's broker.

Q: What does a buyer's agent do?

A: A Top 5 in Real Estate Network® member who acts as a buyer's agent represents the buyer exclusively. This means he works to protect your interests in the transaction and helps to negotiate the best purchase price and terms. More information about buyers' agents is available by contacting the National Association of Exclusive Buyer Agents at (609) 799-4382 or visit www.naeba.org.

Q: Can I use a Top 5 member to purchase a newly built home?

A: Yes. You also can use a Top 5 member who acts as a buyer's agent to help negotiate the price and upgrades on a new home. A Top 5 member can be particularly valuable directing you to newly built developments that match your needs, as well as helping you select reputable builders who are financially sound and respond promptly to buyers' concerns.

Builders normally require an agent to be present on your first visit to the site. This is a sensible procedure that allows the agent to be paid a commission should you decide to buy. Otherwise, if you find a development on your own, make a first visit without the agent, and later make a purchase, the builder may refuse to pay the commission—even if, at some point, the agent became involved in the process.

Q: Why do I need an agent if I can find a home by myself on the Internet?

A: While more buyers now use the Internet to gain access to listings, or available properties for sale, it is still a good idea to use a Top 5 member. Top 5 members bring value to the entire process: he or she is available to analyze data, answer questions, share their professional expertise and handle all the paperwork and legwork that is involved in the real estate transaction.

Q: Are buyers protected against housing discrimination?

A: By law, real estate agents may not discriminate on the basis of race, color, religion, sex, disability, familial status, or national origin. They also cannot follow spoken or implied directives from the home seller to discriminate. If you suspect you have been discriminated against, a complaint may be filed with the local Department of Housing and Urban Development (HUD) office nearest you. You may call HUD's toll-free number (800) 669-9777, or visit its website at www.hud.gov/complaints/housediscrim.cfm.

LEASE OPTIONS

Q: What is a lease option?

A: It is an agreement between a renter and a landlord in which the renter signs a lease with an option to purchase the property. The option only binds the seller; the tenant has a choice to make a purchase or not.

Lease options are common among buyers who would like to own a home but do not have enough money for the down payment and closing costs. A lease option may also be attractive to tenants who are working to improve bad credit before approaching a lender for a home loan.

Q: How does a lease option work?

A: A landlord agrees to give a renter an exclusive option to purchase the property. The option price is usually determined at the outset, but not always, and the agreement states when the purchase should take place—whether, say, six months, or a year or two down the road.

A portion of the rent is used to make the future down payment. Most lenders will accept the down payment if the rental payments exceed the market rent and a valid lease-purchase agreement is in effect.

Before you opt to do a lease option, find out as much as possible about how they work. Talk to real estate agents, read published materials, and, in the end, have an attorney review any paperwork before you sign on the dotted line.

APPRAISALS & MARKET VALUE

Q: How do you determine how much a home is worth?

A: The short answer: a home is ultimately worth what is paid for it. Everything else is really an estimate of value. Take, for example, a hot seller's market when demand for housing is high but the inventory of available homes for sale is low. During this time, homes can sell above and beyond the asking price as buyers bid up the price. The fair market value, or worth, is established when "a meeting of the minds" between the buyer and the seller takes place.

Q: Are there standard ways to determine how much a home is worth?

A: Yes. A comparative market analysis (CMA) and an appraisal are the two most common and reliable ways to determine a home's value.

Your Top 5 member can provide a comparative market analysis, an informal estimate of value based on the recent selling price of similar neighborhood properties. Reviewing comparable homes that have sold within the past year along with the listing, or asking, price on current homes for sale should prevent you from overpaying.

A certified appraiser can provide an appraisal of a home. After visiting the home to check such things as the number of rooms, improvements, size and square footage, construction quality and the condition of the neighborhood, the appraiser then reviews recent comparable sales to determine the estimated value of the home.

Lenders normally require an appraisal—which runs between $200 to $300—before they will approve a mortgage loan. This protects the lender by ensuring the home is worth the money you want to borrow.

You can also check recent sales in public records, through private firms and on the Internet to help you determine a home's potential worth.

Q: What is the difference between list price and sales price?

A: The list price is a seller's advertised price, or asking price, for a home. It is a rough estimate of what the seller wants to complete a home sale. A seller can price high, low—which does not happen very often—or very close to what they hope to get. A good way to determine if the list price is a fair one is to work with your Top 5 member and look at the sales prices of similar homes that have recently sold in the area. The sales price is the actual amount a home sells for.

Q: What about appraised value and market value?

A: A certified appraiser who is trained to provide the estimated value of a home determines its appraised value. The appraised value is based on comparable sales, the condition of the property, and several other factors.

Market value is the price the house will bring at a given point in time, once the buyer and seller establish a "meeting of the minds" on price.

HOME INSPECTIONS

Q: What does a home inspector do?

A: A home inspector is a paid professional—often a contractor or an engineer—who checks the safety of a home. Home inspectors search for defects or other problems that could become your worst nightmare later on. They focus particularly on the home's structure, construction, and mechanical systems.

It is not the inspector's job to determine whether you are getting good value for your money. He does not establish value, only whether the home might collapse in a storm or if the roof might cave in.

A home inspection typically takes place after a purchase contract between the buyer and seller has been signed.

Q: Should I hire a home inspector?

A: By all means. Buying a home without getting expert advice is risky. Once a home inspector uncovers major plumbing and electrical problems, for example, you may decide you do not want to spend several thousand dollars on repairs.

Always include an inspection clause in your written offer. This clause gives you an "out" from buying if serious problems are detected. It also gives you another chance to negotiate the purchase price if repairs are needed. The clause can even specify that the sellers fix any problem that is uncovered before you settle or close on the home.

You also may want to consider hiring experts to inspect the home for a number of health-related risks like radon gas, asbestos, or possible problems with the water or waste disposal system.

Q: How do I select a home inspector?

A: Begin by only hiring one who is qualified and experienced, someone who belongs to an industry trade group, such as the American Society of Home Inspectors (ASHI). This organization has developed formal inspection guidelines and a professional code of ethics for its members. Also, membership in ASHI is not automatic; members must have demonstrated field experience and technical knowledge about structures and their various systems.

Q: Do I need to be at the inspection?

A: No, but it is a very good idea to be there. Following the check-over, the home inspector can answer your questions and discuss problem areas with you. This is also an opportune time to get an objective opinion about the home from someone who does not have emotional or financial ties to the property.

INSURANCE

Q: What does homeowners' insurance cover?

A: It protects against disasters—whether natural, manmade or mechanical. A standard policy insures the home, as well as your possessions. Because this insurance is packaged, it covers liability for any harm, loss, and property damage that you or your family members cause others. And it includes additional living expenses in case you are temporarily displaced because of damage from a fire or other insured disaster.

While you are not legally required to have homeowners' insurance, mortgage lenders stipulate that you do. It protects their investment in the home in case of a natural disaster or catastrophic event.

If your mortgage is paid up—or you never had one—it is still a good idea to have homeowners' insurance to protect your home and your belongings.

Q: What kind of home insurance should I get?

A: A standard policy will do in most instances. It protects against several natural disasters and catastrophic events. However, it will not guard against earthquakes, floods, war, and nuclear accidents. The policy can be expanded to include these disasters as well as coverage for such things as workers' compensation. In fact, the lender may require that you purchase flood or earthquake insurance if the house is in a flood zone or a region susceptible to earthquakes.

You also can increase coverage beyond the depreciated value of personal property such as televisions and furniture by purchasing a replacement-cost endorsement. Home-based business-coverage, once overlooked, is an ever-increasing popular rider. It does not cover liability associated with the business but rather contents such as home office equipment and general liability to cover injuries to clients and employees.

Other considerations: an inflation rider, which increases coverage as the home's value rises, and getting insurance that is equal to the full replacement value of the home.

Insurance companies usually require an amount equal to at least 80 percent of the full replacement value. Otherwise, only a portion of the loss would be covered.

Q: What is condo and co-op insurance?

A: This insurance protects your investment and personal belongings from most disasters. As an owner, you will need two insurance policies—your own to cover liability, living expenses, your belongings and structural improvements, and a master policy provided by the condo or co-op board. The master policy covers the common areas that you share with others in the building. It is paid for using the monthly condo fee that you and other owners pay.

Q: What about title insurance?

A: Title insurance protects the lender against an unclear title to the property you are buying. It is almost always a requirement for closing on a home. If you desire coverage as well, buy an owner's policy, which will protect you against any title-search errors and losses that arise from disputes over property ownership. The cost of title insurance is usually a set value per thousands of dollars of the total loan amount.

Q: Is private mortgage insurance necessary?

A: Lenders require private mortgage insurance (PMI) on most conventional loans with less than a 20 percent down payment. They believe there is a correlation between borrower equity and default. They have found that the less money borrowers put down, the more likely they are to default on a loan. PMI guarantees the lender will not lose money if this happens and a foreclosure is necessary.

The buyer pays this insurance, usually a small fee at the outset and a percentage of the face amount of the loan that is added to the monthly payment.

What most homeowners do not realize is that the insurance is usually no longer necessary after enough equity has built up in the property. Contact your lender if you meet this requirement and want to drop PMI.

A precaution: do not confuse PMI with mortgage life insurance. The latter pays all, or a portion, of your mortgage in the event of your death.

NEGOTIATING & CLOSING THE BEST DEAL

Q: Is it possible to buy a home below market price?

A: Certainly, but it takes a lot of determination and time to find a real bargain. But if you are adamant, here are some likely targets to pursue:

- **Foreclosed property**
- **A fixer-upper**
- **Hard-to-sell new homes in a housing development**
- **Tenant-in-common partnerships**

With the latter, you may be able to buy a partial interest in this form of title to property owned by two or more individuals because the partners often sell at a discount.

However, bargains are easier to come by in a soft real estate market, when the economy is in a recession, and when homeowners, and builders and sponsors of condominium conversions, are desperate to move unsold units.

Q: Are low-ball offers a good idea?

A: Any offer can be presented, but a low-ball one that is extremely less than the asking price can dampen a prospective sale and prevent the seller from negotiating at all. Unless the home is overpriced to begin with, the offer will probably be rejected.

Do your homework before making an offer. Compare prices of recently sold homes and new listings in the neighborhood. It also helps to know something about the seller's motivation. A lower price with a speedy closing, for example, might motivate a seller who must move, has another house under contract or must sell quickly for other reasons.

Also recognize that while your low offer in a normal market might be rejected at once, it might motivate the seller in a buyer's market to either accept it or make a counter-offer.

Q: Can you negotiate interest rates?

A: A few lenders will negotiate the mortgage rate and number of points on a loan. However, this is more the exception than the rule with established lenders. As always, shop around and know the market before you enter a lender's office. Rates are often published in local newspapers and on websites.

You may have more luck when dealing directly with a seller who has agreed to finance your loan. He is likely to be more open to negotiation, particularly when motivated to make a quick sale.

Q: What are some negotiating tips?

A: Know the seller's motivation to sell. This will enhance your negotiating position. Sellers who must move quickly due to a job transfer, divorce or contract on another home are more inclined to accept a lower price to speed the process along.

Remember, too, that the listing, or asking, price is what the seller would like to receive for the home. It is not necessarily what the seller will settle for. So know value. Before you make an offer, check recent sales and listing prices of comparable neighborhood homes and compare them to the seller's asking price.

Other tips:

- **Be flexible. Never say, "take it or leave it." That can sour negotiations and ruin the deal.**
- **Never show your hand or reveal your next step.**
- **Each time you increase your offering price, ask for something in return, such as repairs, appliances, even lawn furniture.**
- **If you plan to pay cash or have a tentative commitment for a loan, use your strong financial position as a negotiating tool.**
- **Don't let emotions such as pride, fear, love, and anger get in the way of negotiating the best deal. Leave irrational feelings at home.**

Q: What contingencies should appear in the offer?

A: When you look to purchase a home, anticipate potential problems. But protect against them so that if something does go wrong, you can cancel the contract without penalty. This is what contingencies allow you to do. They should be included in any offer you present to buy a home.

Most offers include two standard contingencies: a financing contingency, which makes the sale dependent on your ability to obtain a loan commitment from a lender, and an inspection contingency, which allows you to have a professional inspect the property.

Without contingencies, a buyer could forfeit his deposit under certain circumstances if he backs out of a deal.

The purchase contract also should include the seller's responsibilities, such as passing clear title, maintaining the property in its present condition until closing, and making any agreed-upon repairs.

Q: Does the seller take the furnishings once the home is sold?

A: Normally. This is because the fixtures—personal property that is permanently attached to a home, such as built-in bookcases or a furnace—automatically stay with the house unless noted otherwise in the sales contract. Anything that is not nailed down is negotiable, including appliances that are not built in, such as washers and dryers.

Q: Do I need an attorney to buy a home?

A: A lot depends on the state where the property is located. Some require an attorney; others do not.

Most home buyers can generally handle routine real estate purchase contracts as long as they read the fine print and understand all the terms. But pay close attention to any clauses, contingencies, and other special considerations that will allow you or the seller to back out of the contract.

When in doubt, consult an attorney. Ask relatives and friends, or your Top 5 member, for recommendations. Call to inquire about their fees and to check their level of experience. Expect that more seasoned attorneys will cost more.

CLOSING COSTS

Q: What are closing costs?

A: Closing, or settlement, costs are expenses over and above the price of the property. Both the buyer and seller incur some of these expenses when transferring ownership of a property. Who actually pays, however, often depends on local custom and what the buyer or seller negotiates. Closing costs normally include title insurance, loan points, escrow or closing day charges, property taxes, and document fees. The lender provides an estimate of closing costs for prospective home buyers.

Q: Is it possible to save on closing costs?

A: Certainly, once you get past the sticker shock. Closing costs are expensive. They can average between 2 to 3 percent of the total home purchase price. But here are a few ways to save:

- **Haggle with the seller. They may pay all or part of the closing costs.**
- **Nab a no-point loan. You may have to pay a higher interest rate, but if you are strapped for cash and can qualify for a higher interest rate, you may find this type of loan can significantly reduce your closing costs.**
- **Grab a no-fee loan. Although the fee is usually wrapped into a higher rate loan, it does offer one advantage—you get to save on the amount of cash you would need upfront.**
- **Secure seller financing. These loans typically avoid the traditional fees or charges imposed by lenders.**
- **Shop 'til you drop for the best deal. Every lender has its own unique fee structure; you are bound to find one that works for you.**

Q: Is there anything I should know about closing day?

A: Yes. The following to-do list can help save you a few headaches and keep the closing on track:

- **Keep extra money in your account. Something unexpected can pop up during the closing that will require more money out of your pocket. Take your checkbook. Even better, find out how much you will need to pay and write a certified check for the total amount.**

- Take your loan commitment letter. Use it to verify loan approval in case of a mistake or misunderstanding with the lender.
- Take your contract to purchase. Pull it out if something a little suspicious comes up.
- Take your personal ID. A driver's license or other personal identification will due.
- Do a before-closing inspection. It is always a good idea, when possible, to walk through the property to make a list of any problems.
- Utilities. Arrange in advance to have the water and electric meters read on closing day and the service switched to your name to prevent interrupted service. The same applies for the fuel tank.

TAX MATTERS

Q: How can owning a home pay off at tax time?

A: A home provides many tax benefits, literally from the time you buy to the time you sell. The mortgage interest paid on a home loan up to $1 million for a primary residence or second home is tax deductible every year, as is the local property tax. Other mortgage costs—including late-payment charges and early-payment penalties—are also deductible.

If you use a portion of your home for business purposes, you can take a depreciation deduction as well. Many federal tax benefits are also available from local and state tax agencies. Contact your local tax agency for more information.

Q: Are upfront fees and closing costs deductible?

A: Many of the costs paid at closing are not immediately deductible.

The exception is points you pay to purchase your home loan. They are deductible for that year. Points paid when you refinance an existing mortgage must be deducted over the life of the new loan.

Some fees—including loan application, appraisal, document preparation and recording fees—that are assessed when purchasing a home can be recouped by adding them to the adjusted cost basis, the starting point for figuring a gain or less when selling the home.

Significant home improvements also can be calculated into your cost basis.

Q: Are fees and assessments owed to a homeowner's association deductible?

A: Generally not because they are considered personal living expenses. But if an association has a special assessment to make capital improvements, condo owners may be able to add the expense to their cost basis when the property is sold. Another exception may apply if you rent your condo—the monthly condo fee is deductible every year as a rental expense.

Q: Are there tax credits for first-time home buyers?

A: Yes, thanks to the many city and county governments that offer Mortgage Credit Certificate (MCC) programs, which allow first-time home buyers to take advantage of a special federal income tax write-off. The credit reduces the amount of federal taxes paid by the buyer each year, if he or she keeps the same loan and lives in the same house.

An MCC also makes it easier for eligible buyers to qualify for a mortgage loan. The lender can reduce the housing expense ratio—the percentage of gross monthly income applied toward housing expenses—by the amount of the tax savings. Normally, lenders reject loans if the housing expense ratio is too high.

Program requirements for MCCs vary, although most adhere to the following guidelines:

- The buyer must live in the home being purchased with an MCC-assisted mortgage.
- Total household income cannot exceed certain limits.
- The buyer cannot have owned a principal residence within the past three years. This restriction may be waived if a property is purchased within a certain targeted area.
- The purchase price must fall within an established limit.

More information is available by calling your local housing or redevelopment agency, or contacting your Top 5 in Real Estate member.

PROPERTY TAXES

Q: Why do homeowners have to pay property taxes?

A: Property taxes are assessed by city and county governments to generate the bulk of their operating revenues. The taxes help pay for such public services as schools, libraries, roads, and police protection.

Re-valuations of the tax are often done periodically, although the time interval varies from state to state or, in some states, from town to town, and can range from annual reassessments to periods of ten years or more.

Q: How are individual tax bills figured?

A: Unlike the income tax and the sales tax you pay, the property tax is not based on how much money you earn or how much you spend. It is based solely on how much the property you own is worth.

The real property tax is an ad valorem tax, or a tax based on the value of property.

Ideally, the owners of property of equal value pay the same amount of property taxes, and the owners of more valuable property pay more in taxes than the owners of less valuable property. The tax is calculated using a variety of formulas and is based on a property's assessed value—its full market value or a percentage thereof—and the tax rate of the taxing jurisdiction, minus any property tax exemptions, such as those offered for the elderly or veterans.

Q: Can I contest my property taxes?

A: Many people do, mainly because determining value can often be tricky. This is especially true in a changing market when local prices either take off dramatically or plunge precipitously, like during the Texas oil bust of the 1980s.

While it is up to a professional assessor to evaluate property value for tax purposes, property owners are usually allowed to contest their assessment until a certain date after they are made public.

Once you contest, you will have to prove why you think your property is worth less—few homeowners contest hoping to pay more taxes! The two most popular ways for determining value are an appraisal and a comparative market analysis. With an appraisal, a professional estimates the property's market value based on recent sales of comparable properties. A comparative market analysis is an informal estimate of market value performed by a real estate agent based on similar sales and property attributes. Most agents will offer free analyses to win your business.

Contact your local tax assessor's office for procedures on appealing your property tax assessment.

Q: What is an impound account?

A: It is a special bank account held by the lender to collect monthly payments from the borrower to pay property taxes, mortgage insurance, and hazard insurance. These accounts are also called escrow or reserve accounts.

Lenders like to set up impound accounts to ensure the property taxes and insurance will be paid on time. They typically also collect a two-month cushion for taxes and insurance at the closing. A few states require the lender to pay interest on funds held in these accounts.

Q: Are impound accounts required for all mortgage loans?

A: They can typically be waived on a conventional loan if the loan amount is 80 percent or less of the purchase price. But the lender might charge you an additional 1/4 point for this option to waive the escrow.

One way to avoid an impound account on an owner-occupied mortgage is to raise your down payment amount slightly. The exact amount necessary to avoid the escrow will vary with the lender.

In some states, lenders let buyers set up separate accounts in which they place specific funds and then pay the insurance and property taxes themselves. These are called pledge accounts and they must be set up before you close on the home.

An impound account can usually be dropped on an owner-occupied loan once the loan-to-value ratio equals 80 percent or less. But restrictions apply: payments will have to be current and your record of making on-time payments pretty solid. Contact your lender if you meet these requirements and want to drop your impound account.

Q: Are property taxes deductible?

A: Yes. Like the mortgage interest paid on a home loan, property taxes are fully deductible from your income. You may deduct them every year on your primary residence, second home and other investment properties.

However, escrow money held for property taxes cannot be deducted until the money is actually used to pay the property taxes.

WHERE & WHAT TO BUY

Condominiums/Townhouses

Q: What is a condominium?

A: Condominiums are buildings in which individuals separately own the air space inside the interior walls, floors and ceilings of their unit, but they jointly own an interest in the common areas that they share—such as the land, lobby, hallways, swimming pool and parking lot.

In addition to paying a mortgage, each owner is responsible for paying a monthly fee to the condo association, which is made up of the unit owners. The fee covers maintenance, repairs, and building insurance.

Most condominiums are apartments, although there are mobile home condominiums as well.

Q: Why buy a condo?

A: They are an appealing way to enter the housing market if the cost of a single-family home is out of your reach. Condos are especially popular among single home buyers, empty nesters, and first-time buyers in high-priced housing markets.

Unlike a house, condos offer a lifestyle that is free of yard work and exterior maintenance and repairs. Many condominium communities also offer amenities such as exercise rooms, tennis courts, and swimming pools that you might otherwise be unable to afford if you purchased a single-family home.

Q: How do you choose a good condo?

A: Seek ownership in a well-maintained building, and pay special attention to the financial health of the condo association. Lax maintenance may be a sign of financial trouble, which could result in higher maintenance fees and problems trying to resale the property later.

Things to consider:

- Get a copy of the latest financial statement from the condo association.
- Ask the board of directors—which is elected by the unit owners from among themselves—if major repairs or improvements are imminent. If so, find out how much they will cost and whether there is enough money in the reserve to cover them.
- Check the bylaws, rules and the covenants, codes and restrictions (CC&Rs). You may find, among other things, that they prohibit or restrict pets and the renting of units. Some may require that the board have the right of first refusal on the sale of any unit.
- Learn everything you can about the homeowners association, including legal disputes and conflicts. Start by reading the minutes of the association meetings.
- Find out the owner-to-tenant ratio. Because many condominiums are often purchased as investments, there could be a high percentage of tenants in the building.

Q: Are condos good investments?

A: They are a good way to enter into homeownership. The high price of single-family homes and the influx into the housing market of more single home buyers have made condos relatively hot national investments. They have held their value as an investment despite economic downturns and problems with some associations.

Condominium associations have also worked hard in recent years to clean up their image. Disputes and lawsuits were once rampant. But now, associations have become savvier about property management and have taken steps to prevent legal problems and disputes.

Q: How do townhouses differ from condominiums?

A: While most condominiums are apartments, a townhouse is attached to one or more houses and can run the gamut from duplexes and triplexes to communities with hundreds of homes. Buyers separately own their homes and the land on which the houses sit. With a condominium, the unit owners jointly own the land and this common interest cannot be separated from the others.

Townhouses can be structured in many ways. Some, particularly huge communities, have common areas—such as swimming pools—that are similar to condominiums.

Q: What are the pros and cons of owning a townhouse?

A: On the plus side, exterior maintenance and repairs are minimal; there are no neighbors above or below the home like in an apartment; and because the homes are attached, they may offer a greater sense of security.

As for the disadvantages, if there is a homeowner's association, buyers will have to pay a homeowner's fee. There is also less privacy than with a detached single-family home. And there are limits on how you can make exterior changes to the home.

Co-ops

Q: What are co-ops?

A: Cooperative apartments—known as co-ops—are not really owned by people as real property. Instead, people own shares of stock in the company that owns the building in which they live. But for all practical purposes, the experts say owning a co-op is almost like owning real property. Personal loans to "buy" a co-op apartment are written almost like mortgages. And the IRS treats co-op owners much like real property owners. They can deduct interest paid on their apartment loans and on their portion of the municipal taxes and mortgage interest paid by the corporation.

Shareholders in a co-op are entitled to occupy specific units, use the common areas, and have a vote in the corporation. To maintain this right, they must pay a monthly fee that covers their share of operating expenses.

As for governance, a board of directors, which is elected from among the residents, runs the co-op. Under most bylaws, the board may evict any tenant/shareholder who fails to pay the monthly maintenance fee. Everyone is expected to abide by the rules, which may prohibit pets or even children under a certain age.

Q: What are the benefits of having a co-op?

A: In addition to being able to take advantage of tax deductions, the National Association of Housing Cooperatives (NAHC) says shareholders will find that co-ops have low turnover rates, lower real estate tax assessments, reduced maintenance costs, resident participation and control, and the ability to prevent absentee and investor ownership.

Also attractive: housing cooperatives come in all shapes, sizes, and types. They include townhouses, mid-and high-rise apartments, garden apartments, single-family homes, mobile home parks, artists' cooperatives, and senior housing.

For more information about co-ops contact NAHC at (202) 737-0797, or visit www.coophousing.org.

TOP 5

Fixer-Uppers

Q: Where can you find fixer-uppers?

A: They are literally everywhere, even in wealthy enclaves. What sets them apart is price. They have lower market value than other houses in the immediate area because they have either been poorly maintained or abandoned.

A lot of work will be required to determine if a property that interests you is a wise investment. You will need to figure out what the average home in the area sells for, as well as the cost of the most desirable ones.

Experts suggest that novices avoid run-down properties needing extensive work. Instead, they recommend starting with a property that only needs minor cosmetic work—one that can be completely refurbished with paint, new floor and window coverings, landscaping, and new appliances.

Also, keep in mind that a home price that looks too good to be true probably is. Find out why before pouring your hard-earned money into it.

When looking for a fixer-upper, some experts suggest you follow this basic strategy: find the least desirable home in the most desirable neighborhood. Then decide if the expense that is needed to repair the property is within your budget.

Q: Is buying a fixer-upper a good idea in "bad" areas?

A: It depends. So-called "bad" areas—often described as those that are residentially unstable or poor—have offered an affordable means of homeownership for many—particularly young, first-time buyers and low- to moderate-income families interested in a home they can call their own. Whether it is right for you to buy a fixer-upper will depend on your personal threshold for risk and your level of tolerance. That said, many run-down neighborhoods, particularly those close to downtown, are benefiting from a residential resurgence as an influx of newcomers have jumpstarted what were once staid, unsafe, or depressed areas.

Q: How do I determine the value of a distressed property?

A: One of the best ways is to get your hands on a comparable market analysis. See what price similar properties have sold for in the past and find out the listing price of others currently on the market.

It is important to examine the fixer-upper carefully and figure out how much it will cost to fix any defects or repairs. If you are unable to get in, talk with nearby neighbors about the home's condition.

You can also do your own cost comparison by researching comparable properties recorded at the local county recorder's and assessor's offices, or at websites specializing in property records. If the property is in foreclosure, you should get as much information as possible from the lender.

Q: What guidelines should I use to find a contractor?

A: Chances are you will need plenty of help making those major repairs and additions. But the last thing you will need is someone who fails to complete the job or botches it up. Finding good, responsible help is imperative.

Here's what you can do:

- Avoid the Yellow Pages. Check with family, friends, neighbors and co-workers for recommendations.
- Deal only with licensed contractors. The state licensing board and local Better Business Bureau also can tell you if there are any outstanding complaints against the license holder.
- Interview each contractor, request free estimates, if possible, and ask for recent references.
- Ask for proof of worker's compensation insurance and get policy and insurance company phone numbers so you can verify the information. If the contractor is not covered, you could be liable for any work-related injury that takes place during the project. Also check to make sure the contractor has an umbrella, general liability policy.
- Never hand over a deposit at the first meeting—you could end up losing your money.

Q: What kind of return can I expect from home improvements?

A: This will vary depending on the type of work that is done. *Remodeling* magazine publishes an annual “Cost vs. Value Report” that can answer this question in more detail, based on the top 15 home improvements. A recent study it conducted says the highest remodeling paybacks have come from siding and window replacements, major kitchen remodeling, bathroom and family room additions, and mid-range master bedroom suites.

An important point to remember is that remodeling not only improves a home’s livability, it also enhances its curb appeal with future buyers.

Q: How can I finance work needed on a fixer-upper?

A: According to the Millennial Housing Commission created by Congress, few lenders are willing to administer home improvement loans. Most prefer to make home equity loans or unsecured consumer loans because they are easier to manage. Home improvement loans usually require inspections and irregular draws on the loan amount as work is completed, which requires regional or national lenders to find local partners to provide oversight.

Financing repairs and improvements with home equity is okay for most homeowners, but it is difficult for many first-time buyers. They have lower incomes, smaller savings, and have made lower down payments on their homes than first-time buyers a decade ago. So they have little equity to borrow against. Unfortunately, it is often lower-cost, older homes purchased by first-time buyers that need the most work.

Unless you have a cash reserve, you will have to shop around for the best borrowing terms. In addition to the options listed above, you can ask relatives for a loan. Borrow against your whole life insurance policy. Refinance your existing mortgage. Get a second mortgage. Contact the government about home improvement programs. And—only as a last resort—borrow from a finance agency, which generally tend to charge high rates.

Q: Does the federal government offer home improvement programs?

A: Yes. Among the most popular:

- Title 1 Home Improvement Loan. HUD insures the loan up to $25,000 for a single-family home and lenders make loans for basic livability improvements—such as additions and new roofs—to eligible borrowers.
- Section 203(k) Program. HUD helps finance the major rehabilitation and repair of one- to four-family residential properties, excluding condos. Owner-occupants may use a combination loan to purchase a fixer-upper “as is” and rehabilitate it, or refinance a property plus include in the loan the cost of making the improvements. They also may use the loan solely to finance the rehabilitation.
- VA loans. Veterans can get loans from the Department of Veterans Affairs to buy, build, or improve a home, as well as refinance an existing loan at interest rates that are usually lower than that on conventional loans.
- Rural Housing Repair and Rehabilitation Loans. Funded by the Agriculture Department, these low-rate loans are available to low-income rural residents who own and occupy a home in need of repairs. Funds are available to improve or modernize a home or to remove health and safety hazards.

Q: What about state and local governments?

A: Just about every state now offers loans for renovation and rehabilitation at below-market interest rates through its Housing Finance Agency or a similar agency. Call your governor’s office to get the name and phone number of the agency in your area.

At the municipal level, many cities also have programs for special improvements to certain blocks and neighborhoods they are trying to spruce up. Call City Hall, as well as a Community Development Agency in your city.

Q: Are special tax breaks available for historic rehabilitation?

A: Certified historic structures now enjoy a 20 percent investment tax credit for qualified rehabilitation expenses, if they are income producing properties. A historic structure is one listed in the National Register of Historic Places or so designated by an appropriate state or local historic district that is certified by the government. The tax code does not allow deductions for the demolition or significant alteration of a historic structure. For more information, contact the National Trust for Historic Preservation at (202) 588-6000 or online at www.nationaltrust.org.

Many states offer tax incentives, reductions and abatement programs for owners of residential historic homes. These programs are described on the National Trust’s website.

New Homes & Vacation Homes

Q: Can you negotiate the price of a new home?

A: In real estate, almost everything is negotiable, so it is certainly worth a try. Now, this does not mean the builder will fall down and roll over. It is very common for builders to claim that their prices are based on fixed construction costs. Perhaps, but timing is everything.

A builder is more likely to be flexible on price at the very beginning and end of a project. Early on, most developers want to move people in quickly so the project builds momentum. In the end, they may be more inclined to accept lower offers when only a few units are left.

If you are unable to negotiate on price, negotiate for a better lot location or amenities, such as a carpet upgrade or light fixtures. A developer will rarely pass up a deal over a few hundred dollars' worth of carpeting.

Q: Should I hire a home inspector for a new home?

A: You would think not since it is new and the developer has to adhere to local construction guidelines. However, err on the side of caution—always hire an inspector, whether the home is old or new.

You can ask the builder to provide copies of any inspection reports on the property, architectural plans, surveys and pertinent construction documents for your inspector to review.

The inspector should either be a professional home inspector, an engineer, an architect or a contractor. When hiring a professional inspector, look for one who belongs to a home inspection trade organization, such as the American Society of Home Inspectors (ASHI).

This group has developed formal inspection guidelines and a professional code of ethics for its members. Membership in ASHI is not automatic. Proven field experience and technical knowledge about structures and their various systems and appliances are required.

As for rates, they vary greatly. Many inspectors charge about $400, but costs increase based on the scope of the inspection.

Q: What else should I take into account when buying a new home?

A: You can find out more about an existing property and neighborhood before you buy than you can a new home in a newly developed community.

When the home is on the outskirts of town, ask the developer about future access to public transit, entertainment venues, shopping centers, churches, and schools. Also review local zoning ordinances. A remote area can quickly turn into a fast food haven.

You want to ensure the neighborhood will not spiral out of control and lose its residential appeal.

Other things to consider:

- Ask homeowners already living in a development about the builder. If none currently live there, find out where the builder has previously built and speak to those owners to find out if the builder followed through on promises and needed repairs.
- Ability to make changes. Most homes in a development resemble each other. But the developer may impose restrictions on house color, landscaping, renovations, and other items that a homeowner may want to alter.
- Do not buy into the highfalutin images created by marketing experts. Form your own opinions about a property and only buy where you feel comfortable. After all, you are the one who will be living there.

Q: Do builders provide financing?

A: Many builders offer financing incentives to help move more buyers into a project. In fact, major building companies often have their own mortgage brokerage subsidiaries, while many other builders routinely refer buyers to "preferred" local lenders. If it is a buyer's market in your area, you can be sure developers will offer incentives such as low-down-payment financing or interest rate subsidies.

Q: Should I buy a vacation home?

A: The second home market has more ebbs and flows than the primary home market. Sales are iffy in a bad economy except, perhaps, on the high-end. That said, there is a growing trend toward the purchase of vacation homes. They are being bought for investment purposes, enjoyment, as well as retirement. In the latter instance, some people are buying with the idea of turning a vacation home into a permanent retirement haven down the road, a move that puts them ahead of the game now.

Some of the tax benefits mirror those for a primary residence. Mortgage interest and property taxes are deductible, which helps to offset the cost of the home payment. And if you treat your second home as a rental property, you can fully depreciate it as well. But you are only allowed to occupy it for two weeks a year, or 10 percent of the total rented time, whichever is less.

Before taking the leap, ask yourself if you can afford to carry two mortgages, maintain two households, and pay the extra utilities and maintenance costs. Also, learn about financing requirements and options, which can differ slightly from those on a primary residence.

Q: What about a vacation home as an investment?

A: Like any investment, it can be risky. Location and current market conditions are extremely important when deciding whether to buy.

Other things to consider:

- **Will you be able to afford repairs, maintenance, insurance, and utilities?**
- **What about fees to pay agents who rent the property for you?**
- **If you live several miles away from your vacation home, who will clean up between tenants and take an inventory of household items once the tenants leave?**
- **What if you are unable to rent your second home? Can your pocketbook withstand the strain of paying the mortgage?**

Foreclosures

Q: What causes a foreclosure?

A: A lender decides to foreclosure, or repossess, a property when the owner fails to pay the mortgage. Unfortunately, thousands of homes end up in foreclosure every year.

Many people lose their homes due to job loss, credit problems, divorce, unexpected expenses, and during periods of economic instability.

Failure to pay property taxes may also cause a homeowner to lose his home. Trouble can also arise when owners neglect to pay local water bills and home insurance premiums.

Q: Where can I find foreclosure properties?

A: Look in the legal notices section of your local newspaper and online. A notice is also usually posted on the property itself and somewhere in the city where the sale will take place.

However, Top 5 members are the best source for information about foreclosures before they begin. Often a property will be listed and the agent will know if it is approaching foreclosure. Perhaps the best way to get the information is to have your agent put the word out that you are looking for properties with pending foreclosures.

Another source can be the bank or financial institution that holds the mortgage. Of course, they generally will not give you the names of those who are facing foreclosure, but they may give the property owner your card or phone number.

Buying foreclosures is not easy. Savvy investors are highly skilled at nabbing these properties. Inexperienced buyers may find themselves surrounded by pretty stiff competition. They will need to get as much information as possible, including a "foreclosure inspection report" and an appraisal from the lender.

Q: What happens at a trustee sale?

A: When a homeowner falls behind on three payments, the bank will record a notice of default against the property. When the owner fails to pay up, a trustee sale is held, and the property is sold to the highest bidder. The lender that initiated the foreclosure proceedings will usually set the bid price at the loan amount. Successful bidders receive a trustee's deed as proof of ownership.

Trustee sales are advertised in advance and require all-cash bids, which can include cashiers' checks. Normally, a sheriff, constable, or lawyer conducts the sale and acts as the trustee. Because these sales typically attract savvy investors, inexperienced buyers should come extremely prepared.

Q: **What are the disadvantages of buying foreclosures?**

A: Buying directly at a legal foreclosure sale is risky. Among the disadvantages:

- There is no financing. You need cash and lots of it.
- The title needs to be checked before the purchase. If not, you risk assuming a seriously deficient title.
- It may not be possible to inspect the property's interior before the sale, so you will have no idea of the property's condition.
- Foreclosures are routinely purchased "as is," which means you cannot go back to the seller for repairs.
- Also, estate and foreclosure sales are the only property sales that are exempt from some state disclosure laws. In both instances, the law protects the seller—usually the heir or financial institution—who has recently acquired the property through adverse circumstances and may have little or no direct information about it.

Q: **How do I find government-repossessed properties?**

A: The Department of Housing and Urban Development (HUD) acquires properties from lenders who foreclose on mortgages that it insures. These properties are then available for sale to potential homeowner-occupants and investors only through a licensed real estate broker. HUD will pay the broker's commission up to 6 percent of the sales price.

The Department of Veterans Affairs (VA) also acquires properties as a result of foreclosures on VA-guaranteed loans. These acquired properties are marketed through a property management services contract with a federal bank that then lists them for sale with local real estate agents.

Q: **What are some of the guidelines for purchasing HUD foreclosures?**

A: If you have the cash or can qualify for a mortgage, you can buy a HUD home. Down payments vary depending on whether the property is eligible for FHA insurance. If so, the down payment can be lower than the 5 to 20 percent required on conventional loans.

HUD requires that all accepted offers be accompanied by an earnest money deposit equal to 5 percent of the bid price, not to exceed $2,000, but not less than $500.

Foreclosure properties are sold "as is," meaning limited repairs have been made but no structural or mechanical warranties are implied. If a HUD home needs to be fixed - and not all of them do - it can still be a bargain. HUD adjusts the asking price to reflect the fact that the buyer will have to invest money to make improvements. The agency also might offer special incentives such as an allowance to upgrade the property or a bonus for closing the sale early. And buyers can request that HUD pay all or a portion of the financing and closing costs. Contact your real estate agent for more details.

To learn more about HUD foreclosures, visit www.hud.gov.

Q: **What about guidelines for VA foreclosures?**

A: As with HUD, anyone can purchase a VA home. Qualified buyers also can receive the benefit of a VA loan—no money down—even if they are not veterans. If you are interested in purchasing a VA foreclosure, visit its web site, www.va.gov.

WHERE TO BUY

Q: **Why is location so important?**

A: Location remains the single most important factor when choosing a home. It can make or break the value and desirability of a home.

Because everyone's preferences vary, your lifestyle will determine the best place for you to live. Some people prefer the suburbs while others thrive on downtown living. If you favor city living, find out what part of the city suits you best—a fast-paced neighborhood or one slightly more subdued. Talk with the neighbors and keenly observe such things as traffic patterns, lifestyles, and even sounds and smells.

When choosing a town, take property taxes, schools, accessibility to work, services, recreation, and the character of the community into consideration.