



*Vocabulary Keys : Words that are in **bold** = are terms that appear in one of the chapters , Words that are underlined = supplemental vocabulary . Ask questions about these words if you are not familiar with them !*

TOP THINGS TO KNOW

1. Don't buy if you can't stay put

If you can't commit to remaining in one place for at least a few years, then owning is probably not for you, at least not yet. With the transaction costs of buying and selling a home, you may end up losing money if you sell any sooner - even in a rising market. When prices are falling, it's an even worse proposition.

2. Start by shoring up your credit

*Since you most likely will need to get a **mortgage** to buy a house, you must make sure your **credit history** is as clean as possible. A few months before you start house hunting, get copies of your credit report. Make sure the facts are correct, and fix any problems you discover.*

3. Aim for a home you can really afford

The rule of thumb is that you can buy housing that runs about two-and-one-half times your annual salary. But you'll do better to use one of many calculators available online to get a better handle on how your income, debts, and expenses affect what you can afford.

4. If you can't put down the usual 20 percent, you may still qualify for a loan

There are a variety of public and private lenders who, if you qualify, offer low-interest mortgages that require a down payment as small as 3 percent of the purchase price.

5. Buy in a district with good schools

In most areas, this advice applies even if you don't have school-age children. Reason: When it comes time to sell, you'll learn that strong school districts are a top priority for many home buyers, thus helping to boost property values.

6. Get professional help

Even though the Internet gives buyers unprecedented access to home listings, most new buyers (and many more experienced ones) are better off using a professional agent. Look for an exclusive buyer agent, if possible, who will have your interests at heart and can help you with strategies during the bidding process.

7. Choose carefully between points and rate

When picking a mortgage, you usually have the option of paying additional points -- a portion of the interest that you pay at closing -- in exchange for a lower interest rate. If you stay in the house for a long time -- say three to five years or more -- it's usually a better deal to take the points. The lower interest rate will save you more in the long run.

8. Before house hunting, get pre-approved

Getting pre-approved will you save yourself the grief of looking at houses you can't afford and put you in a better position to make a serious offer when you do find the right house. Not to be confused with pre-qualification, which is based on a cursory review of your finances, pre-approval from a lender is based on your actual income, debt and credit history.

9. Do your homework before bidding

Your opening bid should be based on the sales trend of similar homes in the neighborhood. So before making it, consider sales of similar homes in the last three months. If homes have recently sold at 5 percent less than the asking price, you should make a bid that's about eight to 10 percent lower than what the seller is asking.

10. Hire a home inspector

Sure, your lender will require a home appraisal anyway. But that's just the bank's way of determining whether the house is worth the price you've agreed to pay. Separately, you should hire your own home inspector, preferably an engineer with experience in doing home surveys in the area where you are buying. His or her job will be to point out potential problems that could require costly repairs down the road.

Are you ready to own ?

Home ownership means you no longer pay monthly rent for the roof over your head. You can do what you want with your house (within reason). When you leave, you can sell it to recoup the purchase price and - with any luck - earn a profit too.

But don't kid yourself. Home ownership comes with a slew of disadvantages, responsibilities, and downright headaches.

So before going any further, consider whether your lifestyle and finances make home buying a smart move.

*TIP: High costs mean you should be prepared to stay put. Except in a roaring real estate market, it usually doesn't make sense to buy a home you'll own for less than three or four years. Reason: the high transaction cost of buying and selling property means you could lose money on the deal. If you do make money, you'll pay **capital gains taxes** if you're in the house less than two years.*

When home prices are falling, it just makes the case against buying even stronger. So ask yourself if you can really stay put for that long. Will you need to move because you are transferred by your current employer or a new one? Are you thinking of going back to school?

TIP: It may make more sense to rent On the financial side, one key question is whether it costs more, on average, to rent or own in your area. The rule of thumb is that if you pay 35 percent less in rent than you would for owning - including the monthly mortgage, property taxes, and any homeowner's fees - then it's smarter to continue renting.

Only if all those answers still point towards owning should you proceed to the next step - getting the money right.

Getting the money right :

For most people, buying a house involves a double financial whammy.

First you have to assemble a pile of cash for the down payment and closing costs. Then you must convince a bank to lend you an even more staggering sum - generally 80 percent or more of the purchase price.

So your first step, even before you start the actual hunt for a property, should be to get your financial house in order.

Start with your credit

Credit reports are kept by the three major credit agencies, Experian, Equifax, and TransUnion. Among other things, they show whether you are habitually late with payments and whether you have run into serious credit problems in the past.

*A **credit score** is a number calculated from a formula created by Fair Isaac based on the information in your credit report. You have three different credit scores, one for each of your credit reports.*

A low credit score may hurt your chances for getting the best interest rate, or getting financing at all. So get a copy of your reports and know your credit scores. Try Fair Isaac's MyFICO.com, which charges \$15.95 each for reports and scores from Equifax and TransUnion. Experian scores and reports can be accessed from experian.com and cost \$15.

Errors are not uncommon. If you find any, you must contact the agencies directly to correct them, which can take two or three months to resolve. If the report is accurate but shows past problems, be prepared to explain them to a loan officer.

Know what you can afford

Next, you need to determine how much house you can afford. You can start with one of the Web's many calculators. For a more accurate figure, ask to be pre-approved by a lender, who will look at your income, debt and credit to determine the kind of loan that's in your league.

*The rule of thumb here is to aim for a home that costs about two-and-a-half times your gross annual salary. If you have significant **credit card** debt or other financial obligations like alimony or even an expensive hobby, then you may need to set your sights lower.*

Another rule of thumb: All your monthly home payments should not exceed 36 percent of your gross monthly income.

The size of your down payment will also determine how much you can afford.

Line up cash

If you haven't already, you'll need to come up with cash for your down payment and closing costs. Lenders like to see 20 percent of the home's price as a down payment. If you can put down more than that, the lender may be willing to approve a larger loan. If you have less, you'll need to find loans that can accommodate you.

Various private and public agencies - including Fannie Mae, Freddie Mac, the Federal Housing Administration, and the Department of Veterans Affairs - provide low down payment mortgages through banks and mortgage companies. If you qualify, it's possible to pay as little as 3 percent up front. For more, check out their Web sites at Fanniemae.com or Freddiemac.com.

A warning , with a down payment under 20 percent, you will probably wind up having to pay for private mortgage insurance, a safety net protecting the bank in case you fail to make payments. PMI adds about 0.5 percent of the total loan amount to your mortgage payments for the year. So if you finance \$200,000, your PMI will cost \$1,000 annually.

Once you've considered the down payment, make sure you've got enough to cover fees and closing costs. These may include the appraisal fee, loan fees, attorney's fees, inspection fees, and the cost of a title search. They can easily add up to more than \$10,000 - and often run to 5 percent of the mortgage amount.

If your available cash doesn't cover your needs, you have several options. First-time homebuyers can withdraw up to \$10,000 without penalty from an Individual Retirement Account, if you have one, though you must pay taxes on the amount. You can also receive a cash gift of up to \$13,000 a year (the limit for 2009) from each of your parents without triggering a gift tax.

Gift taxes are paid by the donor, not the recipient. In fact, if your and your spouse's parents are both well-heeled, they can give you a total of \$104,000 in one year - \$13,000 from each of the four parents to each of you.

Check on whether your employer can help; some big companies will chip in on the down payment or help you get a low-interest loan from selected lenders. You can also tap a 401(k) or similar retirement plan for a loan from yourself.

Picking a team :

Don't buy a home without professional help.

With all the tools and advice available today ranging from books and magazines to online advice like this lesson - it would be possible for you to buy your home almost completely without the aid of real estate professionals.

That's not necessarily recommended. The housing market, like politics, is basically local, and each state, city, and even neighborhood has a thicket of local laws or customs that you need to understand. For that, it helps to have a team of professionals to guide you.

You might want to start by finding an agent who can represent your interests in the search. This is not as simple as it sounds. Sure, 85 percent of sellers list their homes through an agent - but those agents are working for the seller, not you. They're paid based on a percentage, usually 5 to 7 percent of the purchase price, so their interest will be in getting you to pay more.

What you need is what's known as an "exclusive buyer agent." Sometimes buyer agents are paid directly by you, on an hourly or contracted fee. Other times they split the commission that the seller's agent gets upon sale. A buyer's representative has the same access to homes for sale that a seller's agent does, but his or her allegiance is supposed to be only to you.

To complicate matters, there are hybrid agencies called either single-agency or dual-agency brokers. In both cases, an individual agent in the firm may represent either sellers or buyers, sometimes both, in the same transaction. Potential conflicts of interest abound in this situation, so if you are seeking a buyer agent but no exclusive buyer agent is available, make sure to ask the agent about conflicts of interest.

There are now about a dozen Web sites that help connect buyers with buyers agents, among them HomeGain.com, House.com, RealEstate.com and Reply.com.

Next start looking for a mortgage lender. Take your time, since you could be paying this loan for 30, even 40, years. Start on the Internet at places like LendingTree.com and E-loan.com. You may also want to check out the rates at CNNMoney.com, Bankrate.com, or HSH Associates. These sites carry nationwide listings of mortgage interest rates and other related information.

Don't limit your search to the Web, though. Once you have an idea of the best rates from national lenders, get on the phone to your community banks and any other institutions with which you may have a relationship. Ask if they can beat the national rates. Often, the local lender can offer a better deal simply because he or she knows the local market and wants to keep your business.

You might also consider using a mortgage broker, a middleman who keeps tabs on rates from a multitude of lenders. The mortgage broker isn't paid directly by you but gets paid by the bank. However, the fee - usually 1.5 to 3 percent of the loan amount - may get transferred to you in the closing costs. Most search engines have extensive listings of mortgage brokers. There's also a trade group, the National Association of Mortgage Brokers, which can put you in touch with a broker in your area.

The hunt :

Now it's time to hit the pavement, or the Web, in search of a home .

Your first step here is to figure out what city or neighborhood you want to live in. (Remember the old saying about "location, location, location.")

*For overall **demographics** and data on metropolitan areas, you can visit a city site like CNNMoney.com's annual Best Places to Live list. For more detailed neighborhood*

information, check out sites like Yahoo! Real Estate, Trulia.com, Zillow.com or NeighborhoodScout for comprehensive school and demographic information on a number of communities. Look for signs of economic vitality: a mixture of young families and older couples, low unemployment and good incomes.

Pay special attention to districts with good schools (high teacher-student ratios and graduation rates are among the hallmarks), even if you don't have school-age children. When it comes time to sell, you'll find that a strong school system is a major advantage in helping your home retain or gain value.

Try also to get an idea about the real estate market in the area. For example, if homes are selling close to or even above the asking price, that shows the area is desirable. Try Homegain.com, which is free, or Dataquick.com, which is available only to paid subscribers, to check out recent home sales.

Your real estate agent may also be able to show you listings. Incidentally, if you have the flexibility, consider doing your house hunt in the off-season -- meaning, generally, the colder months of the year. You'll have less competition and sellers may be more willing to negotiate.

Next, take your search to real estate sites like Realtor.com or Yahoo Real Estate, which let you search for property that fit your requirements.

Be wary of choosing search criteria that are too restrictive. For example, select a price range 10 percent above and 10 percent below your true range. Add a 10-mile cushion to the location you specify. If you see a house you are interested in, save it, print it, add it to your bookmark or favorites list, and take note of the MLS code; your agent will want that code to arrange to show you the home in person.

If you're a first-time buyer, pay special attention to condominiums and cooperatives, or co-ops. Condos generally sell for 15 percent to 20 percent less than the cost of comparable detached homes in the same neighborhood, so you get much more space for your money.

What's the difference between the two? In a condo, each owner has absolute ownership of his own unit, which may be an apartment or townhouse. Owners pay a monthly fee to maintain shared areas like the lobby, the pool, or the laundry room. The chief financial risk to a condo owner is that the common charges can rise, or, in the event of a major problem such as a roof repair or boiler replacement, the condo board can assess fees to cover expensive repairs.

It's a good idea, when considering a condo, to find out how much the common charge has changed over the past five years, and whether there have been major assessments during

that time. Also ask what percentage of the residents actually own their units as opposed to just renting them (many condos include both). A complex with lots of renters has fewer owners who care about the upkeep, and it may be harder to get a loan on such a property.

*A co-op is a rarer animal limited to major metropolitan areas, especially New York City. Essentially, the complex is run by a **corporation** where each owner is a **shareholder**. In other words, a co-op owner is a partner in a building, rather than an outright owner of his or her specific unit within that building.*

The monthly maintenance fees are generally higher than those of a condo because they include property taxes . Condo owners pay their own separately, but prices tend to be lower. Their chief downside is that the co-op board usually has to approve new owners and may discourage you from renting your unit if you move out without selling. As with a condo, check on the group's financial health, whether shareholders have been hit with special assessments recently, and whether the unit includes many renters.

When you actually start touring homes, bring a notebook and a digital camera to help you remember details. Your real estate agent should supply you with a description of each house and the lot it sits on, the property tax assessment, the asking price, and sometimes a diagram of the rooms. Your camera and notebook are there to record other details, ranging from the cost of heating to the view out the rear window.

One note: Don't automatically reject a house just because it doesn't measure up to your desires, either in features or price. You can always add a deck, for instance, or update a kitchen. Since the asking price is just a starting point for negotiation, you will be making offers and counteroffers as both parties seek an acceptable price.

Closing the deal :

Here's where you exercise your haggling muscles.

Once you find the house you want, you need to move quickly to make your bid. If you're working with a buyer's broker, then get advice from him or her on an initial offer. If you're working with a seller's agent, devise the strategy yourself.

Try to line up data on at least three houses that have sold recently in the neighborhood. Calculate the difference between the original list price and the final price of the homes sold.

If the average difference is, say, 5 percent below the asking price, then you know you can make an offer 8 percent to 10 percent below, leaving yourself a little room to negotiate. If you really want the house, don't lowball. The seller may give up in disgust.

Another factor to consider in determining your bid is whether the trend in recent home sales is up or down over the past year. For instance, if houses a year ago were selling at list, and recent ones are going at 3 percent below, then you might want to sharpen your pencil for your opening bid to just 5 to 8 percent below list.

There's no foolproof system for negotiating a fair price. Occasionally it's best to deal directly with the seller yourself. More often it's better to work exclusively through intermediaries. In general, don't let the other side begin to believe you are negotiating in bad faith or being deceptive -- any deal you eventually reach has to involve trust on both sides.

Be creative about finding ways to satisfy the seller's needs. For instance, ask if the seller would throw in kitchen and laundry appliances if you meet his price -- or take them away in exchange for a lower price. Remember, too, that your leverage depends on the pace of the market. In a slow market, you've got muscle; in a hot market, you may have none at all.

Once you reach a mutually acceptable price, the seller's agent will draw up an offer to purchase that includes an estimated closing date (usually 45 to 60 days from acceptance of the offer).

Have your lawyer or buyers agent review this document to make sure the deal is contingent upon:

- 1. Obtaining a mortgage;*
- 2. A home inspection that shows no significant defects (make sure you're clear on the definition of "significant");*
- 3. A guarantee that you may conduct a walk-through inspection 24 hours before closing. This last clause allows you to check the home after the sellers have moved out so that you have time to negotiate payment for repairs, just in case the movers cause any damage, or that big living room sofa was hiding a hole in the floor.*

You also need to make a good-faith deposit -- usually 1 percent to 10 percent of the purchase price -- that should be deposited into an escrow account. The seller will receive this money after the deal has closed. If the deal falls through, you will get the money back only if you or the home failed any of the contingency clauses.

Now call your mortgage broker or lender and move quickly to agree on terms, if you have not already done so. This is when you decide whether to go with the fixed rate or adjustable rate mortgage and whether to pay points (see "Picking a team"). Expect to

pay \$50 to \$75 for a credit check at this point, and another \$150, on average to \$300 for an appraisal of the home. Most other fees will be due at the closing.

If you don't already have one, look into taking out a homeowner's insurance policy, too. Ask for recommendations from friends, your lawyer or your real estate agent. Most lenders require that you have homeowner's insurance in place before they'll approve your loan.

In addition to the appraisal that the mortgage lender will make of your home, you should hire your own home inspector. Again, ask for referrals, or check with the American Society of Home Inspectors, a trade group. An inspection costs about \$300, on average, and up to \$1,000 for a big job and takes two hours or more.

Ask to be present during the inspection, because you will learn a lot about your house, including its overall condition, construction materials, wiring, and heating. If the inspector turns up major problems, like a roof that needs to be replaced, then ask your lawyer or agent to discuss it with the seller. You will either want the seller to fix the problem before you move in, or deduct the cost of the repair from the final price. If the seller won't agree to either remedy you may decide to walk away from the deal, which you can do without penalty if you have that contingency written into the contract.

About two days before the actual closing, you will receive a final HUD Settlement Statement from your lender that lists all the charges you can expect to pay at closing.

Review it carefully. It will include things like the cost of title insurance that protects you and the lender from any claims someone may make regarding ownership of your property. The cost of title insurance varies greatly from state to state but usually comes in at less than 1 percent (in Iowa, as little as 0.1 percent plus a fixed fee) of the home's price.

The lender might also require you to establish an escrow account, which it can tap if you fall behind on your mortgage or property tax payments. Lenders can require deposits of up to two months' worth of payments.

After all this rigmarole, the actual closing is often somewhat anticlimactic, though perhaps still nerve-racking. It's a ritual affair, with customs that differ by region. Your lawyer or real estate agent can brief you on the particulars.

For sellers only :

Preparation and timing can help you get the best price.

When you decide to sell, the first thing to do is investigate the local housing market.

Consult the large real estate sites, like Realtor.com, Zillow.com and HomeGain.com to see how similar homes are priced in your neighborhood. Many newspapers also list the selling and asking prices of recent sales, plus how long the houses were on the market. Note the prices for your neighborhood during the last several months.

Check how sales were running, say, a year ago, so you get an idea of whether the market is heating up, cooling down, or staying put. This exercise should give you a sense of what your home is worth.

Selecting an agent

You may decide that you can sell your home without an agent. It's an attractive thought, since you would save the 6 percent of the selling price that a broker typically collects. But balance that against the work involved in advertising a house and being available at all hours to show it.

If you do decide to work through an agent, ask for referrals from friends or check the Web and local newspapers for advertisements. Don't simply accept any recommendation. Make an appointment with an agent and interview him or her for the job.

Evaluate the person as though you were a buyer: Is he or she professional and personable? Does he say the right things to make you want to see the home? Also, since the agent will likely be able to advise you on a selling price, how well does his or her price jibe with the homework you did on your own? Don't be fooled by an agent who is merely flattering you with an inflated price. Go by what you already know about your house and the current housing market.

Ask whether he or she will be the agent actually showing the house. Some brokers have specialists whose main duty is to win the listing. Then another of the broker's agents takes over.

The lowdown on commissions

Once you find an agent you like, you have to formally sign a listing agreement. This is a contract, laying out the specifics of your arrangement, including how long you will let the agent represent your home and what the compensation will be.

Many agents prefer an exclusive listing, meaning you agree to pay a commission regardless of whether the agent is actually responsible for finding the seller. You should commit for no longer than three months (one month, in a hot market). In case you find the agent lacking in enthusiasm, you don't want to be locked into a bad situation.

When you discuss the listing agreement, discuss other issues as well. For instance, if there are certain times when you want the house off-limits for walk-throughs, let the agent know.

Also, consider negotiating the commission. If your house is expensive, an agent might not flinch if you suggest 4 or 5 percent instead of the usual 6. Conversely, if you know it's a buyer's market, consider offering the incentive of a higher commission if the agent can land you a sale within 5 percent of your asking price.

After you've signed a listing agreement, you may want to give your lawyer a call to notify him or her that you're selling your house and will need help reviewing bids and contracts. If you don't want to pay for a lawyer, your agent should also be able to guide you through this process.

Getting ready for an open house

Whether you sell on your own or work with an agent, you'll want to spruce up your house before it goes on the market.

Take an objective look at it: Is it cluttered? A little worn and tired? Consider a new paint job. Tidy up. Move unneeded furniture into the attic, basement or rented storage. Remove some of your personal items, like family pictures and knickknacks. Mow the lawn. Plant flowers, if it's the right season. These seemingly insignificant details can add many thousands of dollars to your eventual sales price.

If you're no good at this kind of thing, consider hiring a home "stager," someone with experience preparing homes for showings. Their fees can be more than offset by quicker sales and higher selling prices.

Speaking of which, you'll need to settle on an asking price. In doing so, forget what you originally paid for the house, how much you've spent on renovations or remodeling, and even how much money you need to move on to your next home. When it comes to pricing your property, the only yardstick that matters is what comparable homes are selling for in your neighborhood now -- which may be more, or less, than you sank into it.

Your research will already have given you a good idea of how the market is faring. Your agent should also provide you with comparable sales and discuss why your house should be priced higher or lower.

Timing is the key

Also note how long the homes were on the market. If you're in a seller's market, with listings moving in a week or two, think about adding a premium to the asking price.

In a buyer's market, it's especially important to get the price right. The critical selling time is within the first month after your home hits the market. If the price is too high, you'll turn off potential buyers and agents and then have a hard time attracting them back, even if you lower your sights later.

When you receive a bid via your agent ask for guidance in how to respond. This will depend on how you priced the house, what the housing market is in your area and your urgency to sell or wait for a better price.

Make sure your lawyer or agent reviews the contingency clauses included with the bid. For example, it's generally not a good idea to agree to sell your home with the contingency that the buyer must first sell his or her own home.

Also make sure that all the buyer's contingencies are restricted within specific amounts of time. For instance, if the deal is contingent upon the home passing an inspection, then the inspection must occur within a week to 10 days of an accepted bid. The same is true of the closing date: Make the buyer commit to a reasonable date, usually 45 to 60 days from acceptance.