

# First-Time Homebuyer's Guide

## The New Rules of Getting a Mortgage

Prices are low, and rates are lower, but hurdles to securing financing remain high. Here's how to clear them

## The No-Surprises Closing

Get to the table, get the keys and get into your home, hassle-free

## Purchasing with Profit in Mind

Think there's a landlord in you? Learn more about buying an investment property

## The New Focus on Inspections

The big issues today's buyers need to look for



Meet the Pros You Want in Your Corner

Homebuying with Bill Rancic

The Best Buys for Your New Home

How to Find a Home That's 'Just Right'

9 Reality Checks for New Buyers with Big Dreams

## First-Time Homebuyer's Guide



### MEET YOUR TEAM

Buying a first home takes a team effort. Familiarize yourself with your teammates and speak their language

### THE 'JUST RIGHT' HOME

Reality check! It's easy to get frustrated in looking for the perfect home. Here's how to strike a balance

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Home prices are low, and so are mortgage rates, but the hurdles you must clear to secure financing have gotten higher.

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Before you get too gaga over a potential new home, it's important to take off the rose-colored glasses and keep these points in mind

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Home prices are low, and so are mortgage rates, but the hurdles you must clear to secure financing have gotten higher. How do you go about it?

### GET SMART: THE BEST BUYS FOR YOUR NEW HOME

Drew and Jonathan Scott, twin brothers, home pros and stars of the HGTV series 'Property Brothers,' offer insight into where to prioritize dollars in a new home

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## Get to Know the First-Time Homebuyer

### About the First-Time Homebuyer

Makes up 37 percent of the market  
Median age: 31  
Median Income: \$62,000

### About the First home

Typically 1,570 square feet  
Sales price: \$155,000  
Monthly mortgage payment: \$794

### Sources for the Down Payment

Used Savings: 79 percent  
Gifts from friends/family: 25 percent  
Loan from friends/family: 7 percent  
Sold stocks or bonds: 9 percent  
Borrowed from 401(k): 8 percent

### First-Time Financing

Fixed-rate mortgage: 94 percent  
FHA mortgage: 54 percent  
VA Loan: 6 percent

Source: National Association of Realtors 2011 Profile of Home Buyers and Sellers

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# Meet Your Team!

**●** DON'T FEEL DAUNTED BY ALL the new people, terminology and processes involved in buying a home. Here's a brief rundown of the people on your team, what they do and how to work with them toward getting the keys to your first home.

## WHO: THE LENDER

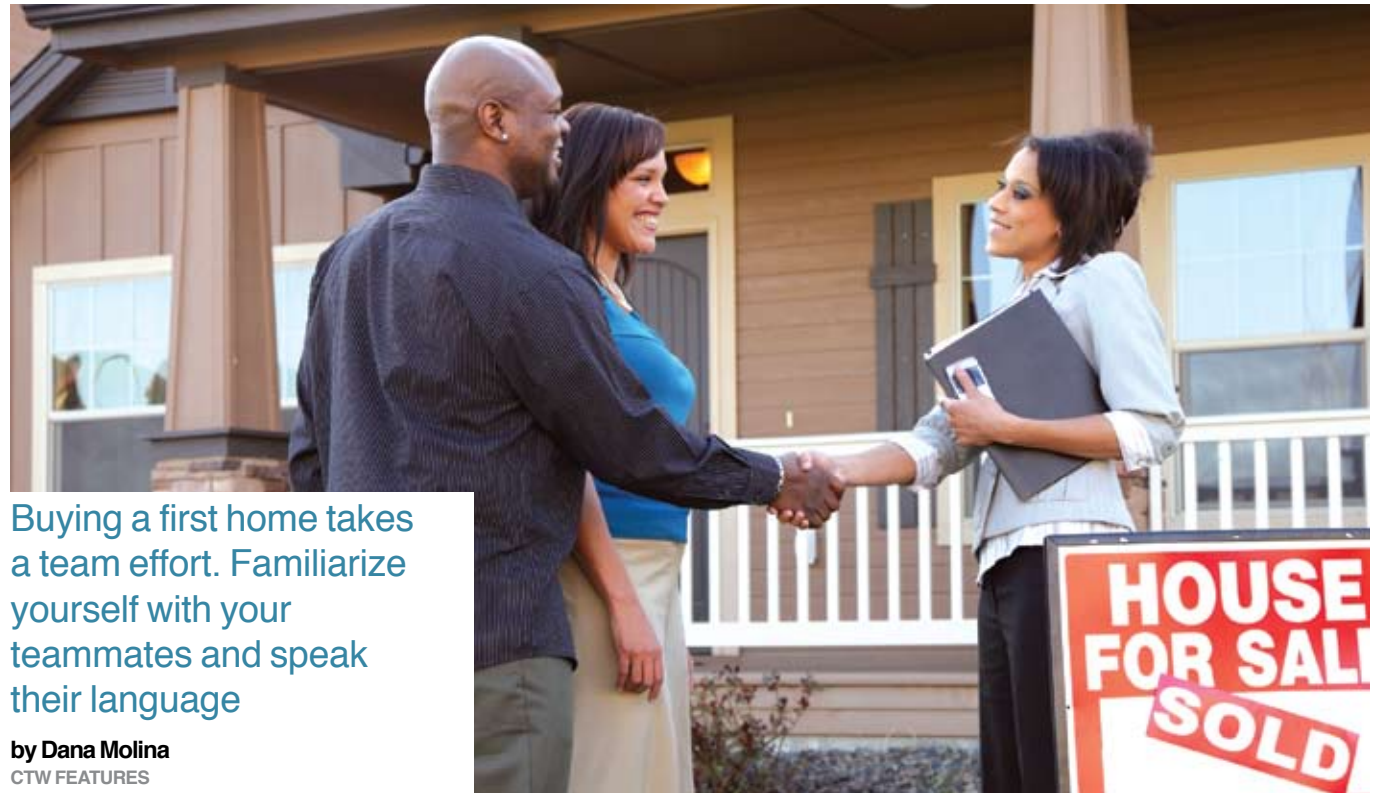
The lender is a key player in your home purchase, so shop around to find the one that can offer you the best deal. According to SmartMoney.org, prospective buyers should compare about three different lenders. Ask about their fees, interest rates – whether they offer a fixed or adjustable rate – and the type of loans and loan terms they offer.

Be wary of strange deals, though, says Wayne Short, co-author of “How to Make Your Realtor Get You the Best Deal” (Gabriel Publications, 2004). Stick with mainstream, big-name lenders, or good local banks or credit unions. Be prepared to reveal your financial self – income, employment status and debt, etc.

### What They Say: “We can offer you a prime rate.”

The prime rate on a mortgage loan is the best possible interest rate a person can get, considering their credit score and financial history, says Cindy DiCianni, Short's co-author of “How to Make Your Realtor Get You the Best Deal.”

The better your credit score, the better chances you'll have for snagging a lower interest rate. To boost your credit score, pay all bills on time and in full, if possible, and don't seek out a new line of credit, such as an auto loan,



Buying a first home takes a team effort. Familiarize yourself with your teammates and speak their language

by Dana Molina  
CTW FEATURES

when shopping for a mortgage.

## WHO: THE REAL ESTATE AGENT

Real estate agents help you through the entire process of finding and buying a home. An agent who is a member of the National Association of Realtors is called a Realtor, and he or she adheres to its code of ethics and standards of practice.

A good agent is versed in which homes are a good value in the current market, what locations are most desirable and how real estate laws and contracts work. Meet with a few real estate agents and pick one with whom you're comfortable and trust. He or she will show you homes, lead you through the process, negotiate the best possible terms and help you make the right decisions.

A good agent also is a networker and can refer other professionals on your team, says Ken Deshaies, another co-author of “How to Make Your Realtor Get You the Best Deal.”

### What They Say: “I need proof of loan pre-approval.”

The real estate agent wants to make sure you can actually afford to buy a home. Some will require an official pre-approval letter from a lender before showing you houses. The key phrase is pre-approval – not pre-qualification. A

pre-qualification is based on information you give the bank, without their verification, which may not suffice for some realtors. A pre-approval is based on information they gather from financial background and credit checks.

## WHO: THE HOME INSPECTOR

One of the biggest mistakes any potential homebuyer can make is to not hire a general home inspector. An inspector will evaluate your potential new home – the structure, the systems, the wiring, everything – and put together a report of what's good, what's bad and what needs improvement. Problem issues can then be presented to the seller to be fixed before an offer moves to closing.

DiCianni tells buyers to be there during the inspection and ask questions. “First-time homebuyers don't know how to maintain a home, and that inspector can be an invaluable source,” she says.

### What They Say: “You're going to need a radon check.”

Radon is an odorless, potentially dangerous gas, often found in rocky areas, Short says. It's just one of the reasons your inspector might direct you to a specialist. It could be termites or mold or faulty wiring. The bottom line is, you may need more than one inspec-

tor to remediate your problems.

## WHO: THE APPRAISER

The appraiser is the “eyes and ears for the lender,” DiCianni says. He will look at other sales in the area and verify that what you're paying (what the bank will be lending you) matches that value. The bank or the lender hires the appraiser to make sure they aren't loaning you more money than the house is worth, Short says.

## WHO: THE CLOSING AGENT

The closing agent may be an attorney, a title insurance company or broker. Whomever it is, this person will compile all the paperwork and “put together all the pluses and minuses for you,” Short says. He or she will look at the financial background of the buyer and seller to make sure nothing will hold up the sale of the house.

### What They Say: “And your closing costs are ...”

The closing costs cover the things it takes to obtain a loan, like a credit report, appraisal fees and title insurance, DiCianni says. The terms for the different things you're paying for can get confusing, so make sure you can lean on your agent to help explain the different fees. Don't be afraid to ask.

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# The New Rules of Getting a Mortgage

Home prices are low, and so are mortgage rates, but the hurdles you must clear to secure financing have gotten higher. How do you go about it?

by Marilyn Kennedy Melia  
CTW FEATURES

WITH INTEREST RATES AND PRICES dipping ever lower, buying a home is more affordable than ever.

Ironically, though, lenders, are so worried about whether borrowers can afford a home that they're ultra-conservative about handing out mortgages.

For first-time buyers, lenders' tight lending policies are a mixed blessing.

On one hand, in the first year or two of ownership, costly home maintenance surprises often pop up. "You're more likely to be successful financially [with tight lender scrutiny]," notes Forrestine Bernard, a homeownership counselor with Neighborhood Housing Services of Chicago.

On the flip side, "A lot of people aren't buying because they are afraid they are going to be denied a loan," notes Charles Chedester, president of the Iowa Association of Mortgage Brokers. "Sometimes the perception of the difficulty is worse than it really is," he adds.

Here, a look at the rules, and some guidance on how first-time buyers might overcome obstacles to a rich reward: an affordable home of their own.

## PENDULUM SWING

A few years ago, during the housing boom, the standing joke was that anyone with a pulse qualified for a loan.

Indeed, without the need to state income, provide a down payment or

exhibit good credit, the only requirement was a willing borrower.

Now, lenders, stung by huge foreclosure losses, have ramped rules to the max. Accumulating enough cash for a down payment is one of the biggest obstacles, says Barry Zigas of the Consumer Federation of America.

You'll need a 20 percent down payment for a conventional mortgage, or else find a lender who agrees to a lower down payment (some may go as low as 5 percent). For lower down payments, private mortgage insurance is also required, which might add anywhere from half a percent to one percent of the loan amount to your annual payments.

The alternative for those without large cash reserves are government-backed loans, like the FHA mortgage, which requires a 3.5 percent down payment.

## A WINNING SCORE

What once was a solid credit score (most lenders use FICO scores, graded between 300 and 850) is now precarious. "When someone is between 660 and 700, and they're approved, I tell them to be very careful because anything they do wrong, like running up cards to their limit, could mean [the lending company] will then deny them," says Chedester.

Moreover, borrowers must exhibit a stable income history, meaning basic-

ly the same salary for the past couple of years, earned in the same general occupation. Gross monthly earnings should be large enough to cover the mortgage payment and property taxes on the home, as well as all regularly occurring bills, leaving slightly more than half for other expenses.

## A CREDIT STARTING POINT

Six months before you hope to buy, check your credit reports, advises Keith Gumbinger of mortgage data site HSH.com. Consumers can obtain an annual free report from each of the major credit-reporting bureaus: Experian, Equifax and TransUnion. Request a report at [annualcreditreport.com](http://annualcreditreport.com).

If the reports have an error, like an unpaid bill you never incurred, follow the procedures outlined in the credit reports to get the mistake rectified.

For some, credit flaws aren't the trouble; it's not having enough of a history. Especially if buyers can't exhibit a pattern reliably paying for housing, lenders worry how they'll do with the "shock" of a mortgage, observes Neil Caron, vice president of Freedom Mortgage in South Windsor, Conn.

Potential buyers should start paying by check instead of cash. And, have a couple of credit cards where you keep balances well below the limit, says Chedester. "You're showing that you manage money well, [that] you are con-

servative about taking on debt."

## THE LENDER LANDSCAPE

When a buyer connects with a real estate agent, it's commonplace for the agent to refer him to a lender for a "pre-approval" if the buyer hasn't already done so. The pre-approval process is where the lender will review credit, income and other factors and provide the buyer with an amount he could probably get in mortgage. Ask the lender for your credit score, too. If you don't get a score, buy it for about \$20 at [myfico.com](http://myfico.com), suggests Gumbinger.

Then, he says, call a host of different types of lending companies: credit unions, banks, mortgage brokers. Ask what is available for someone with your score and circumstances. Also, call your city and inquire about local first-time buyer programs and check [HUD.gov](http://HUD.gov) for a listing of state programs.

That's good advice, agrees Zigas, because each lending company layers its own rules on loans, even FHA mortgages. Some may be more flexible on credit or down payment than others.

While automated computer programs digest your financial information, lenders say humans ultimately make the decision on your loan. Finding a lending company that provides good guidance on how to improve or where to look could bring the project home.

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# A Home That's 'Just Right'



● THAT FIRST HOME TO FINALLY CALL your own has been on your mind for years. But unless money is no object – and it probably is – you'll have to leave some things off the wish list.

A first home is not necessarily a dream home, says Geraldine Santiago, author of “The Complete Home Buyer’s Guide for Canadians” (Self Counsel Press, 2003). “If [buyers are] setting themselves up for something that has all the bells and whistles, they’re going to be disappointed,” she says.

Still, all homebuyers can find a place that’s just right, as long as they balance expectations with reality. Take these steps to make sure you’re prepared.

## SIZE IT UP

So how much space will you need? The answer is different for everyone, but most experts predict smaller homes in the future. The average home size reached its peak in 2007, at 2,521 square feet, according to the U.S. Census Bureau, shrinking to 2,392 square feet in 2010. By 2015, it will be 2,152 square feet, according to the National Association of Home Builders. So don’t be afraid to go for less space. Think about practicality and expenses. Ask yourself, “Can I afford the heat and air conditioning? Calculate all that in,” says

## Reality check! It’s easy to get frustrated in looking for the perfect home. Here’s how to strike a balance

by Dana Molina  
CTW FEATURES

Bette McTamney, president-elect of the Pennsylvania Association of Realtors.

### MAKE A CHECKLIST

McTamney asks her clients for their various “lists”: a must-have list, a want-but-could-live-without-it list, and a list of things they really don’t want, she says. Come up with your checklist before meeting with an agent. Santiago suggests going to open houses on your own to see what you like. This is especially important for couples. You and your partner should be on the same page to avoid conflict while house hunting.

### PRIORITIZE

Once you make your list, decide what items are more important. Maybe you need three bedrooms, but there are only two bedroom homes available near your desired school district, says

McTamney. “If good school districts is higher on your list, you need to be able to say, ‘Can we make that den work into a third bedroom?’”

### CONSIDER THE FUTURE

Will you live in this house for three years? Ten years? Your whole life? These are questions you need to ask yourself, says Michael Wolf, author of “The First Time Home Buyer Book” (Dog Ear Publishing, 2010).

### MANAGE YOUR TIME

Wolf says the average buyer looks at anywhere between 10 and 15 homes over a 30-day span. But don’t let statistics guide you. “There’s nothing wrong with wanting to buy the first house that you see,” Wolf says. If there are things you absolutely cannot compromise, it could take longer. “If you’re in a position to wait, then wait,” McTamney says. But Wolf warns against analysis paralysis – looking at more than a hundred homes.

### KEEP YOUR EMOTIONS IN CHECK

It’s your first house. It’s exciting, and it’s emotional. But don’t let those emotions take over. “Don’t lose track of that logical thought process,” Wolf says.

## The Cost of Ownership

After you become a homeowner, it’s time to develop a budget. Don’t forget that there’s more to keep in mind than monthly mortgage payments.

### Maintenance

Now that you own the home, there’s no landlord to fix things. Whether you hire a plumber, electrician or need materials for DIY projects, these costs can add up, says Santiago.

Annual cost: 1 to 3 percent of the purchase price, according to SmartMoney.org.

### Utilities

Ask the sellers how much they pay each month, poll neighbors or call the utility company and ask how much the previous owners paid.

Annual cost: According to Kiplinger’s, expect 10 percent of monthly take-home pay to go toward utilities.

### Taxes

Taxes fluctuate, McTamney says, so before you buy, call the school districts and the township to find out if they’re expecting a tax hike.

### Home Warranty

This is an extra – similar to the extended warranty you buy for electronics, says Cindy DiCianni, co-author of “How to Make Your Realtor Get You the Best Deal” (Gabriel Publications, 2004). It’ll generally last one year and cover things like plumbing, electrical issues, and appliances.

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More foreclosures means more vacancies, and more vacancies means homes aren't getting the TLC they deserve. Here are the big issues buyers – and their inspectors – need to look for in today's market

by **Jetta Bates**  
CTW FEATURES

# The New Focus on Inspections

● A GLANCE AT THE LATEST MORTGAGE Bankers Association's National Delinquency Survey during the last quarter of 2011 shows that nearly 13 percent of loans were at least one payment past due or in foreclosure. That's a definite sign there will be a continued supply of homes for sale.

Great deals abound, but unemployment has impacted buyers' purchasing abilities, and sellers cannot afford to stay in their homes. This economic reality has resulted in more vacant properties; 14.2 percent of housing units in the U.S. were vacant in the third quarter of 2011. These vacancies mean getting a home inspection has never been more important.

Why?

Buying a home is one of the largest investments you will make in your lifetime, and an inspection shows you exactly what you are getting into – especially with a house that has been neglected.

“When a person moves out of the house, the plumbing system dries up, leaks develop where they were not before, mold can build up – Mother Nature wants to reclaim that house,” cautions Marvin Goldstein, president and charter member of the American Society of Home Inspectors, North America's oldest professional society of home inspectors.

If purchasing a vacant home, Goldstein suggests that buyers contact the utility companies to turn on the heat,

water and electricity for the day of the inspection to mitigate any post-sale shocks. “The longer it is vacant, the more risk you are taking that when you turn on the water, heat and electricity, problems that did not even exist will show themselves.”

This is not the time to play it cheap and call your handy uncle or the neighborhood Mr. Fix-It. It takes industry expertise and some good tools to properly inspect a home, especially one that has been unoccupied.

Houston Washington, a Chicago real estate entrepreneur who specializes in restoring vintage homes, believes in spending the money to hire the best inspector for the job. “I buy vintage properties, which require a lot of

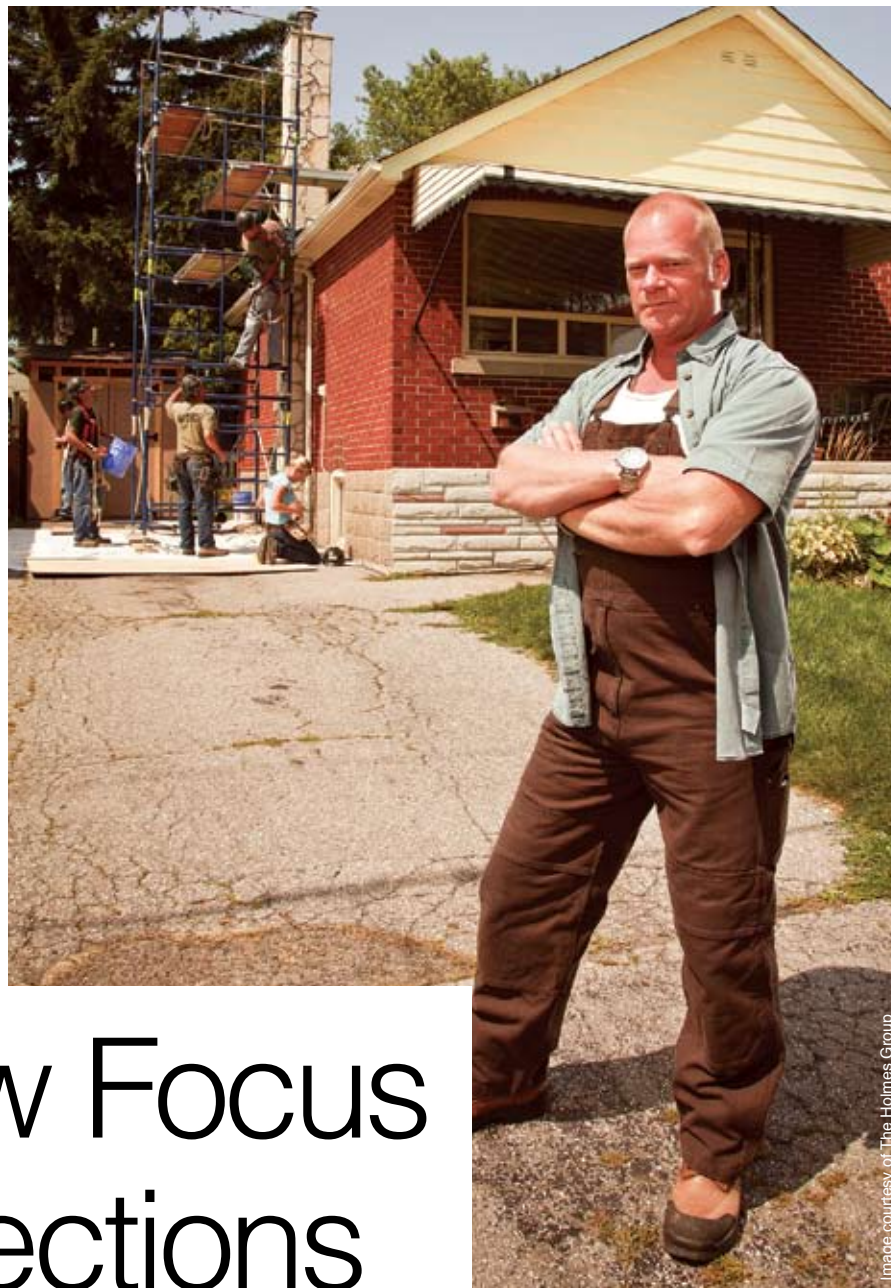


Image courtesy of The Holmes Group

## What to Ask a Potential Inspector

Before you hire a home inspector, run through these quick questions to better assess their bona fides.

### 1. What did you do before becoming a home inspector?

“If he worked at McDonald's, that means he doesn't have a background in the trades - which means he is not as experienced as someone who was a contractor or architect,” says Mike Holmes of HGTV's “Holmes Inspection.”

### 2. How long have you been in the industry?

“I want someone who has at least 10 years of experience doing inspections,” says Houston Washington, a real estate entrepreneur. “Not that someone with two or three years can't do the job, but I believe there is no substitute for experience.”

### 3. What is your experience and accreditations?

The inspector should have experience in inspecting the type of property you want to buy. Visit [ASHI.org](http://ASHI.org) and use the “Find an Inspector” tool for a list of ASHI-credentialed inspectors that have met the technical, testing and 250 professional inspections requirements.

### 4. Do you have any references? If so, please provide a few names of people you have done work for recently.

In his book “Home Inspections Done Right,” Holmes puts it simply: If they don't have any references, move on to the next inspector.

### 5. Do you have any financial interests in this property?

If yes, look for another inspector. Only your best interests should matter here.

### 6. What kind of specialty inspections you do?

Marvin Goldstein, president of the National Association of Home Inspectors, suggests that homeowners choose an inspector that is specially certified to identify any environment hazards, like mold or radon, that are known issues in the region they are looking to move.

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work,” he says. With the goal of turning a profit, it is even more important that Washington is informed by his inspector of all issues regarding a home up front. “I believe in hiring the best; the money you save in the long run by using an inspector is worth every penny.”

Ideal inspectors can identify any current problems or potential hazards – their primary goal is to look out for the homebuyer’s best interest. Professional organizations like ASHI take seriously any conflicts of interests that may put purchasers at risk. Not only are ASHI members required to have performed 250 inspections in compliance with ASHI standards, pass industry exams and take continuing education classes, they are never allowed, as part of the code of conduct, to inspect homes they stand to benefit from financially, as it is a conflict of interest.

Chicago homeowner Cloressa Davis heartily agrees with this rule. She bought her building from an inspector and, trusting his professionalism, did not opt for an inspection from an inspector hired on her own behalf. A few years later, her building began to lean due to foundation damage she was not aware of – a lesson that cost upward of \$30,000. “Hindsight is 20/20,” Davis says. “I was a young, first-time homebuyer and believed,

although advised otherwise, that if an inspector was the contractor, there was no need to pay for another inspector.

“It is to your benefit to hire another party that is not invested in the sale in any way to do the inspection,” adds Davis, who is looking to upgrade from her starter home soon. “Next time, I will be sure to hire an inspector with my best interest in mind.”

Mike Holmes, the veteran builder and star of HGTV hits “Holmes on Homes” and “Holmes Inspection,” has seen how lack of information can result in huge repair bills or unsafe living conditions for homeowners. “The biggest issue I see? Buying without awareness,” Holmes says.

Holmes advises to not only find an experienced inspector but to go a bit further than a standard inspection, as it does not cover testing for mold, asbestos in the plaster and lead in the paint.

“Find someone that can do the additional testing - it is not a lot of money and will save you in the long run,” Holmes says. He also suggests turning off your emotions and choosing a home based on intelligence rather than the home’s curb appeal, which is great advice especially since vacant properties have a higher probability of costly “surprises.”

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# 9

## Reality Checks for New Buyers with Big Dreams

Before you get too gaga over a potential new home, take off the rose-colored glasses and keep these points in mind

by Lindsey Romain  
CTW FEATURES



It's easy to get swept away in the romance of a new home – those tall ceilings, that spacious backyard, all the great amenities that are nearby. Eager young buyers are especially vulnerable. The mindful first-time homebuyer will keep an eye on the little practicalities that many first-timers ignore. Here are nine points to keep in mind before buying your first dream home.

### 1 THE HOUSE IS DRESSED TO IMPRESS

Sellers spruce up a house before putting it on the market, staging it with attractive furniture and accessories, baking cookies and lighting candles to scent the rooms with a pleasant aroma. What seems like a nice detail could be covering up a problem, such as stinky plumbing or musty odors.

“Go back to the house at another time and request that there be no olfactory or auditory enhancements,” says Suzanne Whang, former host of HGTV’s “House Hunters” and author of “Suzanne Whang’s Guide to Happy Home Buying” (HGTV, 2006).

Diana Brodman Summers, an attorney and author of “How to Buy Your First Home” (Sphinx Publishing, 2005) adds: “Concentrate on the facts, not the fluff.”

### 2 EMPTY ROOMS FEEL BIGGER

During a walkthrough, think about your own possessions and how they will fill the space. Ignore the furnishings that are there – or not there.

“If the house is empty, remember that furniture will make each room feel smaller,” Whang says.

### 3 KEEP TRACK OF THE APPLIANCES

Make sure the contract honors the appliances that will come with the house. And make sure it’s specific.

“Do not just say ‘washer and dryer,’” says Brodman Summers. “Say ‘Maytag Model 800 washer and dryer.’ That way the seller cannot substitute an old washer and dryer for the one in place

when the deal was made.”

Brodman Summers advises doing a walk-through of the home the night before closing to ensure that all items in the contract are still there and in the same condition.

## **4** YOU'RE GOING TO HAVE TO FIX STUFF

New homes rarely arrive in pristine condition. Be sure to allot some of your budget for repairs, big and small. A pre-purchase home inspection will offer insight into what projects might need to be done, and your agent will highlight potential fixes, too.

## **5** THE HOUSE WILL LOOK DIFFERENT THROUGHOUT THE DAY

Visit the house and surrounding area at different times during the day and at night.

“You’ll want to experience the levels of sunlight and shade in all of the rooms,” says Whang, who also suggests walking around the neighborhood at different times to see how safe you feel.

## **6** ARE THE NEIGHBORS HAPPY?

The best way to know if a neighborhood lives up to the asking price of a property is to get a feel from the folks who live nearby. Chat up neighbors to see if they’re comfortable with the area and have had good experiences. It’s a good idea to meet people in the area and in your building; you’ll want to be sure you’ll be comfortable living next door to them.

## **7** GOOD SCHOOL DISTRICTS COME WITH A PRICE

Have kids? Want kids? A strong school district might influence a purchasing decision, but be aware that a good school means a higher price tag. What makes a school district “good?”

“A person may want to research the school district online,” suggests Brodman Summers. “See if it has made the news; look at the demographics of the families in that area; look at school board meeting minutes and the graduation rate.”

## **8** YOUR MONTHLY COSTS MAY GO UP

According to Brodman Summers, the monthly mortgage cost on a home is often is higher than a new homeowner expects, due to insurance and taxes, which have the potential to increase. She suggests making a detailed budget and staying conscious of the fact that certain expenses will fluctuate.

## **9** A LITTLE COURTESY GOES A LONG WAY

“If you really love a house, write a personal letter to the owners,” says Whang. “It could make the difference between your offer and a comparable dollar amount from another buyer.”

Whang notes that many sellers don’t want to sell a family home to buyers who will tear it down or make major renovations, so if your plan is to keep the integrity of the structure, let them know. A little bit of home loving can go a long way to making the best decision.

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# The No-Surprises Closing

How first-time buyers can get to the table, get the keys and unlock the door to a home without hassles

by Erik J. Martin  
CTW FEATURES



● WHEN A BARTENDER ANNOUNCES “closing time,” it’s a cue to pay the tab and go home. Purchasing a first home is no different, only this closing time comes with a lot more paperwork. Knowing what to expect in that pile of paperwork and how to be prepared can make the process go a lot smoother.

For starters, plan to have all your financial ducks in a row well in advance of your closing date, says Jeremy Gulish, a real estate agent with Keller Williams Towne Square Realty, Morristown, N.J.

“With the extensive scrutiny that is now part of mortgage underwriting, I recommend that my clients have everything available to show the underwriter, short of their blood work and urinalysis,” Gulish says.

What that means is, depending on state and lender requirements, count on bringing to the closing:

- A driver’s license or state-issued picture ID
- Recent tax returns and pay stubs
- W-2 forms
- The two most recent monthly bank statements of all your financial accounts
- Proof of additional income (alimony, Social Security, rental income, etc.)
- The purchase and sale agreement and any addenda
- A cashier’s check or other “good funds” check for the balance due (the total of which you’ll be notified a day or two prior to closing).

At closing, you’ll be represented by a closer for the lender who will ask you to sign a set of standard federally regulated documents, which you and/or your attorney have the right to view up to 24 hours in advance of the closing.

You’ll also receive a settlement statement showing details of all charges for completing the purchase. Items like property address, loan and payment amounts, dates and names will need to be reviewed carefully. Plan for a long sit-down; most closings last approximately one hour or longer.

“Be prepared to explain any major debits, credit inquiries and financial changes that are reflected in bank accounts,” Gulish says. “It’s also critical that buyers don’t have a career change or major financial debits incurred during the closing process, as their lender may not approve their loan if their financial situation changes.”

## THE COST OF CLOSING

So, what’s included in the closing costs? They usually include:

- a buyer’s home inspection report (\$250 to \$400)
- appraisal (up to \$500)
- homeowner’s transfer and doc fees (\$400 to \$700, if applicable)

- prorated taxes
- insurance and mortgage interest (which can vary widely depending on purchase price)
- escrow (varies by state)
- title insurance (approximately \$500)
- attorney fee
- mortgage origination fees, possibly (1 percent of purchase price).

Sellers almost always pay the agent commissions, netted from the seller’s proceeds, although the closing agent fee is part of the buyer’s total settlement charges. All funds you are required to provide are placed in an escrow account and disbursed to the appropriate parties by the closing agent.

“Closing costs and prepaid items such as escrow accounts for insurance and taxes typically equate to 1 to 2 percent of the purchase price. These closing costs are negotiable – the seller can pay, the buyer can pay, or they can be a gift,” says Amy Frankmore, broker associate with Kentwood Real Estate in Greenwood Village, Colo.

Kate Wilson, branch manager for Fairway Independent Mortgage Corp. in Bloomington, Minn., says many closing-cost assistance programs are available for eligible first-time buyers that can significantly reduce what you’ll

owe at the closing table. Consult your agent or lender for more details.

Though, depending on your state, you may not be obligated to have an attorney for the closing, it’s recommended to hire an attorney (expect a fee of a couple hundred dollars) to walk you through the paperwork before signing your John Hancock.

“While most of the paperwork [at closing] is boilerplate documents, it is very important for the buyer’s attorney to make certain all of the terms were previously disclosed to the buyer and were agreed to in advance,” says Scott J. Clifford, an attorney with Epstein, Lipsey and Clifford in Hanover, Mass.

Lastly, if you’re purchasing a foreclosed home or a short sale property, you can expect longer closing times, as the purchaser typically is waiting on a third party to record certain documents needed for closing and/or waiting for third party approval.

“Short sales close on average around the 100th day of a binding contract with the seller if the listing agent and buyer’s agent know what they’re doing,” says Rhonda Duffy, agent, Duffy Realty of Atlanta. “Foreclosures close sooner if there are no title issues.”

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First-Time  
Homebuyer's  
Guide  
*Landlords*



# Purchasing with a Profit in Mind

● **LOOKING INTO BEING A LANDLORD?** No longer can homebuyers count on purchasing now and selling for a profit later.

Instead, buyers wanting to wring cash out of a home are eyeing an immediate payoff: rental income.

The foreclosure crisis has scared off or prevented thousands of families from owning a home. But the lure of a nice home and yard endures: Data firm Local Market Monitor reports that 15 percent of single-family homes are for rent, up from 13.2 percent in 2005.

More folks looking to rent prompts more people to consider becoming landlords. “Investors of all types approached us to ‘teach’ them on how to become a successful real estate investor,” says Jim McClelland, president of MACK Companies in Tinley Park, Ill., which purchases rentals for investors.

“Being a landlord is more like running a small business than it is like investing in stocks,” says G. Scott Haislet, a Lafayette, Calif., accountant who owns rental properties.

“With a stock, you spend some time before investing doing research, but then you don’t have to do much but watch it,” he explains.

“Even if you use a management company, you’re going to spend time being a landlord ... the management company

The demand for single-family home rentals is rising – but does that mean you should bite? Consider this before plopping down for an investment property

by Marilyn Kennedy Melia  
CTW FEATURES

will call to ask if you want to make certain repairs, for instance.”

Here, a primer on rental basics:

## THE BAR RISES FOR INVESTOR BORROWERS

Don’t dream about collecting rent unless you already have healthy cash reserves. Seeking a mortgage for a property you intend to rent typically requires a 25-percent down payment, explains Brian Siebert, past president of the Michigan Mortgage Professionals Association.

Lenders also may want six months of mortgage payments in reserve when the purchase is closed.

Property insurers view rentals as riskier, so expect to pay about a 25 percent more for coverage than on a traditional homeowner’s policy, says Chris Hackett of the Property Casualty Insurers Association of America.

## THE PROPERTY DICTATES PROFITS

Selecting the right property isn’t as much a personal decision as a business analysis: What are the comparable rents? How about vacancy rates?

While would-be landlords may be drawn to the many attractively priced single-family homes, a house may not be the best choice, says Robert Boyer of the website *FinestExpert.com*, which scores specific addresses for their investment potential. A duplex might rent each side for \$700, while a single-family home of the same square footage of both duplexes could rent for just \$1,200, he says. “It’s easier to rent multi-family units because the rent charges are cheaper.”

## TAXING MATTERS ARISE

If landlords didn’t realize they were getting into a business, they will when they file their income taxes. You’ll probably be filing Form 1040 Schedule E, Haislet says, whereby you can take a host of deductions to minimize taxable rental income.

Knowing all the possible deductions, such as depreciation on the building structure, and backing them up with records is something that “people who do it themselves get wrong a lot,” Haislet says.

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## A Management Middleman

Owning even a small rental property is a big job. For starters, you must stay abreast of housing laws, screen tenants, collect rents and respond to complaints.

Many landlords don’t have the time, expertise or inclination to do it all. Instead, they outsource the task to a real estate management company.

Often, services are offered a la carte, while some companies may require a package, says Jesse Holland, president of Sunrise Management & Consulting in Albany, N.Y. For basic services, like tenant screenings, rental collections and maintenance, charges may be about 10 percent of gross rental income, he says. The larger the rental property, the lower the percent of gross rental income charged, adds Joe Greenblatt, CEO of Sunrise Management Co. in San Diego (unrelated to the Albany firm).

Look for professional managers, perhaps with the education that has earned them designations like Certified Property Manager, or Accredited Residential Manager, Holland adds.

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# Beyond the Kitchen Sink



A homebuyer buys a house – and buys into a new world. Here's how to scout the intangibles that are part of a purchase

by Lindsey Romain  
CTW FEATURES

● A FIRST-TIME HOMEBUYER USUALLY has a big-item checklist: a master bathroom; no obnoxious colored tile in the kitchen; a back porch big enough for a Jacuzzi, perhaps.

Beyond these quantifiable items, though, there are aspects of choosing a home that take more time and effort to check out. Follow these tips to make sure you find the perfect home for all your wants and needs.

## START THE PROCESS WITH A SOLID AGENT

The most important decision a first-time buyer makes is to choose an agent “who constantly works to meet your expectations,” says Mike Wolf, a San Diego-based real estate agent and author of “The First Time Homebuyer Book” (Dog Ear Publishing, 2010).

A good agent will outline the highlights and the lowlights of a property, never leaving out information that could make a purchaser think twice. Buying a new home is a big deal, so having good help along the journey is essential.

## A SOLID FOUNDATION COUNTS

Wolf says to be mindful of four major attributes of a home that you may not immediately notice: the foundation, plumbing, electrical work and

roof. Rely on professionals to red flag potential problems.

“Don’t try to pretend like you know what you’re talking about because you read a few articles online,” Wolf says. “Let your real estate agent get you linked to people who deal with these things every single day.”

## DOUBLE-CHECK THE NEIGHBORHOOD

The house may look good, but how is the ‘hood? Even safe neighborhoods have fallbacks. Check out the neighborhood more than once and at different times of the day.

Katherine Ross, director of coaching at Corcoran Consulting & Coaching, a Swansea, Ill. real estate broker consulting company, suggests asking yourself questions like, “Is there garbage on the street?” or “How do the yards look?” She also says to be mindful of the amount of street parking, which can indicate the level of commotion, and be on the lookout for future projects like building and construction that might intervene with your move.

“A home’s value is based on location and condition,” says Ross. “You can change the condition, but you cannot change the location.”

Wolf says to make it a mission to meet the neighbors and ask them ques-

tions about the neighborhood.

“There are going to be people coming and going, parking their cars, walking their dogs,” he says. Get to know them, find out more about the area and the maintenance of the neighborhood. Is it clean? Is it safe? Are the rates good?

“That gets you the best, most honest answers,” he says.

## CAN YOU WALK IT?

In 2011, the median age of a first-time homebuyer was 31, according to the National Association of Realtors. Many first-time homebuyers are young, and young couples are more apt to search for a home that supports green and healthy living. That can mean anything from solar panel roofs to energy-efficient lighting and insulation. But the biggest energy saver is one many might not consider: being carless.

Walking instead of driving not only cuts energy usage, but it also saves a homeowner money and contributes to a healthier, active daily routine.

Matt Lerner is CEO of WalkScore, a website that promotes walkable neighborhoods by ranking cities and towns based on how easy it is to reach amenities and services on foot versus using automotive transportation, among other pedestrian-friendly measures.

According to Lerner, three-fourths of

prospective homebuyers aim to buy a home that will help shorten their commute.

House hunters can enter an address on WalkScore to determine a neighborhood’s walkability. The higher the WalkScore, the more walkable it is. Scores are determined by the distance between homes in a neighborhood to places of importance: the grocery store, the post office, school, work. These points help assess both the distance of the commute and the dollars saved. Lerner says that one point on WalkScore is equal to \$3,000 savings on gas and related vehicle costs.

“A walkable home is a green home,” says Lerner. “You’ll be healthier, it’s better for the environment and your home is going to be a better investment.”

## KEEP AMENITIES IN MIND

A quick, easily walkable trip to the supermarket is great, but remember that proximity comes with a price.

“The amount of amenities and the proximity of them to a specific house is highly correlated with price,” Wolf says. “You definitely get what you pay for in real estate. If living centrally is important to you, be prepared to pay a premium in order to do so.”

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# Buying with Bill Rancic

● WHEN HE TOOK ONE LOOK AT THE old Chicago brownstone home that was for sale, Bill Rancic, knew it was for him.

"Its location was unbelievable, right in the heart of the Gold Coast Historic District," says Rancic, the Chicago real estate developer who became a household name after winning the first season of Donald Trump's "The Apprentice."

One would expect a 100-year-old home to have its own set of charms, but it's what the home did not have that really sold Rancic.

"What I loved was that the inside was completely stripped," he says. "It was like a blank canvas. I really enjoyed that. I put my heart and soul into [remodeling] and have sleepless nights thinking of what I'm going to do."

You can call Bill Rancic a home-builder or a flipper, but he'll quickly correct you. He doesn't buy the homes with an intention to sell. Instead, he calls himself an artist. What painters do with a blank canvas, Rancic does with a home.

"I never remodel homes with the intent of selling them," he says. "I do it because I enjoy it, it's a creative outlet for me and I get satisfaction from taking something that's horrible and making it gorgeous, in my opinion."

Once he's purchased a home, Rancic says he makes sure to pay attention to the care and detail he puts into it, something all buyers can do with their new homes.

"I'm big into embracing technology and its advancements," says Rancic, who is married to E! News anchor Giuliana Rancic. "In our last home, we had 12 cameras and equipment that turned

'The Apprentice' star and real estate developer opens up about buying, remodeling and selling

by Lisa Iannucci  
CTW FEATURES

on all the lights and the heat and unlocked the doors from my iPad 7,000 miles away.

"The [homes] have a traditional quality, too, and I like incorporating the old and the new and infusing them together," he says.

Rancic, who built a "cigar scotch" room in one of his homes, also suggests creating an environment you can see yourself in.

"I can see myself at a dinner table or with a great bar and room, but you have to have something that has mass appeal to the general population, depending on who you're trying to appeal to," he

says. "I built that room as a great place to entertain and it wouldn't cost you a fortune to take it out, unlike, for example, a bowling alley."

Despite the buying, remodeling, selling and more buying, Rancic doesn't consider himself some sort of marketing guru. "I'm not out marketing my homes because I built them with the genuine intention of living there. I like to buy things I'm going to hold onto, including apartment buildings and rental property. I really don't consider myself a flipper."

Next on his building agenda, he's starting construction on a mixed-use

building lot in downtown Chicago. He offers these tips to those who are still trying to sell their homes in today's market: "Offer something unique and lead with your greatest assets," he says.

"Remember that first impressions matter," Rancic says. "I looked at a condo for Giuliana and I, but it was filthy with crayon on the wall. It was a high-end unit. This person could've spent \$5,000 on cleaning it up and gotten several hundred thousand dollars more. It's like selling a car and not spending \$10 on a car wash. You want the 'wow' factor."

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# Get Smart

## The Best Investments for Your New Home

Drew and Jonathan Scott, twin brothers, home pros and stars of the HGTV series 'Property Brothers,' offer insight into where to prioritize dollars in a new home

by Courtenay Edelhart  
CTW FEATURES



Drew Scott, left, and twin brother Jonathan, right, stars of HGTV's 'Property Brothers'

**SOMEWHERE BETWEEN THE** closing table and the house-warming party, reality sits in: You have a lot of space to fill and decorate. Oh, and all those repairs the landlord used to handle are now your responsibility.

The average new homebuyer spends about \$4,900 on appliances, furniture and remodeling in the first year, according to the National Association of Home Builders.

The general rule is that you should spend no more than 30 percent of your gross (pre-tax) income on housing. That will leave you some wiggle room for the other stuff.

If you're like most first-time buyers, you may not have much in the way of savings after the down payment, so spend wisely the first couple years of ownership to get the most bang for your buck.

Here, real estate agent Drew Scott and his licensed-contractor twin brother Jonathan Scott, stars of the HGTV show "Property Brothers," offer their tips on where to prioritize your purchases.

### THINGS THAT LOOK COOL

Everyone knows that kitchens and bathrooms move homes at resale, so if you want to remodel a bit, you might want to start there.

"There are countless ways to update your kitchen and bathroom, no matter how low of a budget you're working with," Drew says. "Modern and new doesn't mean everything needs to be customized. You can make a [prefabricated] kitchen look custom-designed by mixing it up. Save by getting prefabricated cabinets so you can pair them with custom features like a stone countertop, under-mount lighting and crown molding."

In the bathroom, two of the easiest ways to modernize are by updating the vanity and flooring, Drew adds. Because most bathrooms are small, getting great-quality, stylish tiles may be more feasible. You can find sales on 16-inch porcelain tiles for as little as \$1.25 each.

"For all your renovation products, take time to shop," Drew says. "I've found an impressive dual-vessel sink vanity with dark wood cabinetry - all assembled - for less than \$800."

If your budget is extremely limited and you're not looking to change the

Repainted cabinets, new hardware and hanging lamps provide inexpensive yet high-impact updates to the kitchen.



Benjamin Moore

layout, simply add new hardware to your cabinetry and paint or re-stain your cabinets, Jonathan says.

“Changing your faucets and fixtures can instantly update the look,” he said. “Installing a new lighting fixture in the bathroom can make a big difference in a small space. These improvements breathe new life into your kitchen and bathrooms at a low cost.”

### **THINGS THAT SAVE MONEY**

Don't blow your budget on a design piece or renovation that the average person won't find value in, Jonathan said. For example, a Jacuzzi or pool sounds luxurious and adds value, but usually not enough to cover the cost, and it could deter buyers who don't want to deal with the maintenance and safety issues. An affordable way to add value is to knock down a wall between a kitchen and family room, says Jonathan, noting the bulk of buyers who prefer an open-layout plan.

“A common mistake we see with do-it-yourself projects is when a homeowner attempts to improve a space by renovating without removing walls, when the original layout was simply not functional,” Drew says. “While you have a redesigned kitchen, the function of the space has not changed and buyers will still see the kitchen as cramped and impractical.”

If a wall is load-bearing, you can install a beam or can cut out a walk-through, which opens up the space

without compromising structural integrity.

Another wise investment is anything that promotes energy efficiency, such as a tankless hot-water system, solar panels or high R-value insulation.

“These will cost a bit more up front, but there are usually rebates that you can apply for to offset any additional expenses,” Jonathan says. “Generally, the additional costs may take three to five years to recoup, but you'll definitely be saving money in the long run.”

To learn more about energy-efficient upgrades and potential rebates or tax incentives, visit [EnergyStar.gov](http://EnergyStar.gov).

### **THINGS THAT SAVE TIME**

It's common for homeowners to feel obligated to work with the first contractor or designer they find. Don't hire anyone until you've interviewed several candidates, and remember that cheapest is not always best.

Ask friends and family members for referrals, Jonathan says. The Better Business Bureau is another great source for ensuring that a firm is legitimate and has a good track record.

Most professionals should provide a free quote and be sure to get it in writing. Find out if they're licensed, how long they've been in business, make sure they are up to date on the latest codes and technology, ask about their educational background and always check references, Jonathan says.

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