Benefits of Owning Your Own Home

The Best Investment

As a fairly general rule, homes appreciate about five percent a year. Some years will be more, some less. The figure will vary from neighborhood to neighborhood, and region to region.

Five percent may not seem like that much at first. Stocks (at times) appreciate much more, and you could earn over six percent with the safest investment of all, treasury bonds.

But take a second look…

Presumably, if you bought a $200,000 house, you did not pay cash for the home. You got a mortgage, too. Suppose you put as much as twenty percent down – that would be an investment of $40,000.

At an appreciation rate of 5% annually, a $200,000 home would increase in value $10,000 during the first year. That means you earned $10,000 with an investment of $40,000. Your annual "return on investment" would be a whopping twenty-five percent.

Of course, you are making mortgage payments and paying property taxes, along with a couple of other costs. However, since the interest on your mortgage and your property taxes are both tax deductible, the government is essentially subsidizing your home purchase.

Your rate of return when buying a home is higher than most any other investment you could make.

If you are moving to a home for the first time, you are going to be very pleased with all the new space you have available. You may have to even buy more "stuff."

Income Tax Savings

Because of income tax deductions, the government is basically subsidizing your purchase of a home. All of the interest and property taxes you pay in a given year can be deducted from your gross income to reduce your taxable income.

For example, assume your initial loan balance is $150,000 with an interest rate of eight percent. During the first year you would pay $9969.27 in interest. If your first payment is January 1st, your taxable income would be almost $10,000 less – due to the IRS interest rate deduction.

Property taxes are deductible, too. Whatever property taxes you pay in a given year may also be deducted from your gross income, lowering your tax obligation.

Stable Monthly Housing Costs

When you rent a place to live, you can certainly expect your rent to increase each year – or even more often. If you get a fixed rate mortgage when you buy a home, you have the same monthly payment amount for thirty years. Even if you get an adjustable rate mortgage, your payment will stay within a certain range for the entire life of the mortgage – and interest rates aren't as volatile now as they were in the late seventies and early eighties.

Imagine how much rent might be ten, fifteen, or even thirty years from now? Which makes more sense?

Forced Savings

Some people are just lousy at saving money, and a house is an automatic savings account. You accumulate savings in two ways. Every month, a portion of your payment goes toward the principal. Admittedly, in the early years of the mortgage, this is not much. Over time, however, it accelerates.

Second, your home appreciates. Average appreciation on a home is approximately five percent, though it will vary from year to year, and in some years may even depreciate.. Over time, history has shown that owning a home is one of the very best financial investments.

Freedom & Individualism

When you rent, you are normally limited on what you can do to improve your home. You have to get permission to make certain types of improvements. Nor does it make sense to spend thousand of dollars painting, putting in carpet, tile or window coverings when the main person who benefits is the landlord and not you.

Since your landlord wants to keep his expenses to a minimum, he or she will probably not be spending much to improve the place, either.

When you own a home, however, you can do pretty much whatever you want. You get the benefits of any improvements you make, plus you get to live in an environment you have created, not some faceless landlord.

More Space

Both indoors and outdoors, you will probably have more space if you own your own home. Even moving to a condominium from an apartment, you are likely to find you have much more room available – your own laundry and storage area, and bigger rooms. Apartment complexes are more interested in creating the maximum number of income-producing units than they are in creating space for each of the tenants.

If you are moving to a home for the first time, you are going to be very pleased with all the new space you have available. You may have to even buy more "stuff."

Other Things to Avoid Before Purchasing a Home

Don't Move Money Around

When a lender reviews your loan package for approval, one of the things they are concerned about is the source of funds for your down payment and closing costs. Most likely, you will be asked to provide statements for the last two or three months on any of your liquid assets. This includes checking accounts, savings accounts, money market funds, certificates of deposit, stock statements, mutual funds, and even your company 401K and retirement accounts.

If you have been moving money between accounts during that time, there may be large deposits and withdrawals in some of them.

The mortgage underwriter (the person who actually approves your loan) will probably require a complete paper trail of all the withdrawals and deposits. You may be required to produce cancelled checks, deposit receipts, and other seemingly inconsequential data, which could get quite tedious.

Perhaps you become exasperated at your lender, but they are only doing their job correctly. To ensure quality control and eliminate potential fraud, it is a requirement on most loans to completely document the source of all funds. Moving your money around, even if you are consolidating your funds to make it "easier," could make it more difficult for the lender to properly document.

So leave your money where it is until you talk to a loan officer.

Oh…don't change banks, either.

The Effect of Changing Jobs

For most people, changing employers will not really affect your ability to qualify for a mortgage loan, especially if you are going to be earning more money. For some homebuyers, however, the effects of changing jobs can be disastrous to your loan application.

How Changing Jobs Affects Buying a Home

Salaried Employees

If you are a salaried employee who does not earn additional income from commissions, bonuses, or over-time, switching employers should not create a problem. Just make sure to remain in the same line of work. Hopefully, you will be earning a higher salary, which will help you better qualify for a mortgage.

Hourly Employees

If your income is based on hourly wages and you work a straight forty hours a week without over-time, changing jobs should not create any problems.

Commissioned Employees

If a substantial portion of your income is derived from commissions, you should not change jobs before buying a home. This has to do with how mortgage lenders calculate your income. They average your commissions over the last two years.

Changing employers creates an uncertainty about your future earnings from commissions. There is no track record from which to produce an average. Even if you are selling the same type of product with essentially the same commission structure, the underwriter cannot be certain that past earnings will accurately reflect future earnings.

Changing jobs would negatively impact your ability to buy a home.

Bonuses

If a substantial portion of your income on the new job will come from bonuses, you may want to consider delaying an employment change. Mortgage lenders will rarely consider future bonuses as income unless you have been on the same job for two years and have a track record of receiving those bonuses. Then they will average your bonuses over the last two years in calculating your income.

Changing employers means that you do not have the two-year track record necessary to count bonuses as income.

Part-Time Employees

If you earn an hourly income but rarely work forty hours a week, you should not change jobs. There would be no way to tell how many hours you will work each week on the new job, so no way to accurately calculate your income. If you remain on the old job, the lender can just average your earnings.

Over-Time

Since all employers award overtime hours differently, your overtime income cannot be determined if you change jobs. If you stay on your present job, your lender will give you credit for overtime income. They will determine your overtime earnings over the last two years, then calculate a monthly average.

Self-Employment

If you are considering a change to self-employment before buying a new home, ***don't do it.*** Buy the home first.

Lenders like to see a two-year track record of self-employment income when approving a loan. Plus, selfemployed individuals tend to include a lot of expenses on the Schedule C of their tax returns, especially in the early years of self-employment. While this minimizes your tax obligation to the IRS, it also minimizes your income to qualify for a home loan.

If you are considering changing your business from a sole proprietorship to a partnership or corporation, you should also delay that until you purchase your new home.

No Major Purchase of Any Kind

Review the article title "**Don't Buy a Car**," and apply it to any major purchase that would create debt of any kind. This includes furniture, appliances, electronic equipment, jewelry, vacations, expensive weddings…

…and automobiles, of course.

Don't Buy a Car

When an individual's income starts growing and they manage to set aside some savings, they commonly experience what may be considered an innate instinct of modern civilized mankind.

The desire to spend money.

Since North Americans have a special love affair with the automobile, this becomes a high priority item on the shopping list. Later, other things will be added and one of those will probably be a house.

However, by the time home ownership has become more than a distant and hopeful dream, you may have already bought the car.

It happens all the time, sometimes just before you contact a lender to get pre-qualified for a mortgage.

As part of the interview, you may tell the loan officer your price target. He will ask about your income, your savings and your debts, then give you his opinion. "If only you didn't have this car payment," he might begin, "you would certainly qualify for a home loan to buy that house."

Debt-to-Income Ratios and Car Payments

When determining your ability to qualify for a mortgage, a lender looks at what is called your "debt-to-income" ratio. A debt-to-income ratio is the percentage of your gross monthly income (before taxes) that you spend on debt. This will include your monthly housing costs, including principal, interest, taxes, insurance, and homeowner's association fees, if any. It will also include your monthly consumer debt, including credit cards, student loans, installment debt, and….

…car payments.

How a New Car Payment Reduces Your Purchase Price

Suppose you earn $5000 a month and you have a car payment of $400. At current interest rates (approximately 8% on a thirty-year fixed rate loan), you would qualify for approximately $55,000 less than if you did not have the car payment.

Even if you feel you can afford the car payment, mortgage companies approve your mortgage based on their guidelines, not yours. Do not get discouraged, however. You should still take the time to get pre-qualified by a lender.

However, if you have not already bought a car, remember one thing. Whenever the thought of buying a car enters your mind, think ahead. Think about buying a home first. Buying a home is a much more important purchase when considering your future financial well being.

The Business Cycle and Buying a Home

Recession and Expansion

There are times when the economy is brisk and everyone feels confident about his or her prospects for the future. As a result, they spend money. People eat out more, buy new cars, and….

…they buy new homes.

Then, for one reason or another, the economy slows down. Companies lay off employees and consumers are more careful about where they spend money, perhaps saving more than usual. As a result, the economy decelerates even further. If it slows enough, we have a recession.

During such a time, fewer people are buying homes. Even so, some homeowners find themselves in a situation where they must sell. Families grow beyond the capacity of the home, employees get relocated, and some may even find themselves unable to make their mortgage payment - perhaps because of a layoff in the family.

Supply and Demand

When the supply of available houses is greater than the supply of buyers, appreciation may slow and prices may even fall, as happened in the early eighties and the early to mid-nineties.

If you are lucky enough to purchase a home during a slow period, you can be reasonably certain the economy will begin to show strength again. At times, real estate values may even surge drastically. In many regions of the country, this is precisely what occurred in the late eighties and nineties.

Should You Try to "Time the Market"?

One problem with attempting to time your purchase to the business cycle is that no one can accurately predict the future. Another challenge is that interest rates are generally higher during a depressed market and income may not be keeping up. For that reason, fewer people can qualify for a home purchase than in more prosperous times.

Why You Should Not Wait

Plus, this strategy generally works best for first-time buyers. People who already have a home usually need to sell it in order to buy their next one. If a "move-up" buyer wants to buy a home during a depressed market, that means they usually have to sell one during the slow market, too. If a seller wants to sell his home to take advantage of a "hot" market when prices are fairly high, they generally have to buy their next home during that same hot market.

It tends to equal out.

Finally, the business cycle can change over time. Since 1983, we have had two fairly long expansions with only a slight recession in between each. You would not want to wait nine years to buy a home, would you? You could miss out on a substantial amount of appreciation by waiting, and end up paying much higher prices.

Determining Your Offer Price

When you prepare an offer to purchase a home, you already know the seller’s asking price. But what price are you going to offer and how do you come up with that figure?

Determining your offer price is a three-step process. First, you look at recent sales of similar properties to come up with a price range. Then, you analyze additional data, such as the condition of the home, improvements made to the property, current market conditions, and the circumstances of the seller. This will help you settle on a price you think would be fair to pay for the home. Finally, depending on your negotiating style, you adjust your "fair" price and come up with what you want to put in your offer.

Comparable Sales

The first step in determining the price you are willing to offer is to look at the recent sales of similar homes. These are called "comparable sales." Comparable sales are recent sales of homes that compare closely to the one you are looking to purchase. Specifically, you want to compare prices of homes that are similar in square footage, number of bedrooms and bathrooms, garage space, lot size, and type of construction.

If the home you are interested in is part of a tract of homes, then you will most likely find some exact model matches to compare against one another.

There are three main sources of information on comparable sales, all of which are easily accessed by a real estate agent. It is somewhat more difficult for the general public to access this data, and in some cases impossible. Two of the most obvious information sources are the public record and the Multiple Listing Service.

Comparable Sales in the Public Record

The most accessible source of information on comparable sales is the public record. When someone buys a home the property is deeded from the seller to the buyer. In most circumstances, this deed is recorded at the local county recorder’s office. They combine sales data with information already known about the property so they can assess property taxes correctly.

Provided there have been no additions to the property, the information available from the public record is usually correct regarding sales price, square footage, and numbers of rooms. This makes it easy to use the public record as a source of data for comparable sale information.

Accessing the data is another matter, at least for the general public. Realtors can generally look up this information through title insurance companies. The title companies either compile the data directly from the county recorder’s office or purchase it from other companies.

One problem with the public record is that it tends to run ***at least*** six to eight weeks behind. Add another four to six weeks for the typical escrow period and you can see the data is not current. The most current information is the most valuable.

Comparable Sales in the Multiple Listing Service

Most of the public is aware that the Multiple Listing Service is a private resource where Realtors list properties available for sale. Recently, the public has been able to access some of that information on such sites as Realtor.com, MSN HomeAdvisor, and others.

Once a property is sold and the transaction has closed, the selling price is posted to the listing in the Multiple Listing Service. Over time, it has become a huge database on past sales, containing much more information on individual homes than can be gleaned from the public record. This information is only available to real estate agents who are members of the local Multiple Listing Service.

Your agent will provide you with this data to help determine your offer price.

Comparable Sales – Pending Transactions

The most valuable information would be the most current, of course. A sale last week has more validity in helping you determine a purchase price than a sale from six months ago. The problem is that there is no actual record of the sales price until the transaction is completed. The information is not available in the public record because no deed has yet been recorded.

Neither is the information available in the Multiple Listing Service. Once a property is sold, it becomes a "pending sale" and all pricing information is removed from the listing. Prices are not posted until it becomes a "closed sale." This protects the seller in case the transaction falls apart and the property is placed back on the market. It would give an unfair advantage to future potential buyers if they already knew what price the seller had been willing to accept in the past.

However, if a Realtor has a reason to know the sales price, they can usually find out through professional courtesy. Also, some real estate brokerages post sales information on a transaction board in their office.

Other Factors Influencing Your Offer Price

Gathering and analyzing information from comparable sales helps to establish the range of prices you should consider when making an offer to buy a home. More weight should be given to the most recent sales, but even so, you need to do a bit more analysis before setting upon the price you will offer. That is because you also need to consider the condition of the property, improvements, the current market, and the circumstances behind the seller’s decision to sell.

How Property Condition Affects Your Offer

Since you have toured the property you are interested in, you should know how it compares to the general neighborhood. All you have to do is put the home in one of three categories - average, above average, or below average.

When evaluating a home’s condition, there are a number of things you should consider. Structural condition is most important - items such as walls, ceilings, floors, doors and windows. Then paint, carpets, and floor coverings. Pay special attention to bathrooms and bedrooms and whether the plumbing and electricity work efficiently. Look at the fixtures, such as light switches, doorknobs, and drawer handles. The front and back yards should be in reasonably good shape.

The missing ingredient will be information on the condition of the homes from your comparable sales list. Provided you chose the right agent to represent you, they will have actually visited most of those homes and be able to provide key insights.

How Home Improvements Affect Your Offer Price

Even when comparing exact model matches within a tract of homes, you should note whether the previous owners have made any substantial improvements. Cosmetic changes should be largely ignored, but major improvements should be taken into account. Most important would be room additions, especially bedrooms and bathrooms. Other items, like expensive floor tile or swimming pools should be taken into account, too, but should be discounted. A pool that costs $20,000 to install does not normally add $20,000 in value to the home. Rely on your agent to give you guidance in this area.

How Market Conditions Affect Your Offer Price

A hot market is a "seller’s market." During a seller’s market, properties can sell within a few days of being listed and there are often multiple offers. Sometimes homes even sell ***above*** the asking price. Though most buyer’s want to get a "deal" on a home, reducing your offer by even a few thousand dollars could mean that someone else will get the home you desire.

A slow market is a "buyer's market. During a buyer's market properties may languish on the market for some time and offers may be few and far between. Prices may even decline temporarily. Such a market would allow you to be more flexible in offering a lower price for the home. Even if your offered price is too low, the seller is likely to make some sort of counter-offer and you can begin negotiations in earnest.

More often than not, the market is simply "steady," or in transition. When a market is steady, no real rules apply on whether you should make an offer on the high end of your range or the low end. You could find yourself in a situation with multiple offers on your desired house, or where no one has made an offer in weeks.

Transition markets are more difficult to define. If the economy slows unexpectedly, as it did in the early nineties, people who buy on the high end of a seller's market (like the late eighties) could find their home loses value for several years. So far, no one has proven reliable in predicting when markets change or how good or bad the real estate market will become.

How Seller Motivation Affects Your Offer Price

Truthfully, it is rather rare that a seller's motivation will dramatically affect the price of a home, but it is often possible to save a few thousand dollars. The most common "motivated seller" is someone who has already bought his or her next home or is relocating to a new area. They will be under the gun to sell the home quickly or face the prospect of making two mortgage payments at the same time. Since that can drain a bank account quickly, most sellers want to avoid such a situation and may be willing to give up a few thousand dollars to avoid the possibility.

There are also family crises that can motivate a seller to make a quick deal. However, when you see a real estate ad that mentions "divorce," "motivated seller," "relocation," or something to that affect, beware. Although the facts may be true, that does not necessarily mean the seller is motivated to make a quick and costly sale. Most likely, the ad is more designed to generate phone calls and leads rather than sell the home.

However, there are times when a seller is truly distressed, willing to make a quick sale and sacrifice thousands of dollars. With the seller's permission, the listing agent will post this information along with the listing in the Multiple Listing Service. They may also inform other agents during office and association marketing sessions or by flyers sent to other real estate offices. Provided this information has been made generally available to Realtors, your agent should know when a seller is truly motivated and when it is just "puff" designed to elicit interest in a property.

The exception is when an agent is selling a home they have listed themselves or selling a home that was listed by another agent from their own company. In such a situation, the agent may be acting as an agent for the seller, or as a "dual agent," representing both you and the seller. In such a situation, they cannot legally provide you with information that would give you an advantage over the seller.

The Final Decision on Your Offer Price

Comparable sales information helps you to determine a base price range for a particular home. Adding in the various factors like property condition, improvements, market conditions, and seller motivation help determine whether a "fair" price would be at the upper limit of that range or the lower limit. Perhaps you will feel a fair price is outside of that price range.

The "fair" price should be approximately what you are willing to agree on at the ***end*** of negotiations with the seller. The price you put in your offer to ***begin*** negotiations is totally up to you and depends on your negotiating style. Most buyers start off somewhat lower than the price they eventually want to pay.

Although your agent may provide advice and guidance, you are the one who makes the decision. The price you put in the offer is totally up to you.

Writing an Offer to Purchase Real Estate

Once you find the home you want to buy, the next step is to write an offer – which is not as easy as it sounds. Your offer is the first step toward negotiating a sales contract with the seller. Since this is just the beginning of negotiations, you should put yourself in the seller's shoes and imagine his or her reaction to everything you include. Your goal is to get what you want, and imagining the seller's reactions will help you attain that goal.

The offer is much more complicated than simply coming up with a price and saying, "This is what I'll pay." Because of the large dollar amounts involved, especially in today's litigious society, both you and the seller want to build in protections and contingencies to protect your investment and limit your risk.

In an offer to purchase real estate, you include not only the price you are willing to pay, but other details of the purchase as well. This includes how you intend to finance the home, your down payment, who pays what closing costs, what inspections are performed, timetables, whether personal property is included in the purchase, terms of cancellation, any repairs you want performed, which professional services will be used, when you get physical possession of the property, and how to settle disputes should they occur.

It is certainly more involved than buying a car. And more important.

Buying a home is a ***major*** event for both the buyer and seller. It will affect your finances more than any other previous purchase or investment. The seller makes plans based on your offer that affect his finances, too. However, it is more important than just money. In the half-hour it takes to write an offer you are making decisions that affect how you live for the next several years, if not the rest of your life. The seller is going to review your offer carefully, because it also affects how he or she lives the rest of their life.

That sounds dramatic. It sounds like a cliché. Every real estate book or article you read says the same thing.

They all say it because it is true.

Contingencies in a Purchase Offer

In most purchase transactions there may be a slight challenge or two, but most things will go quite smoothly. However, you want to anticipate potential problems so that if something does go wrong, you can cancel the contract without penalty. These are called "contingencies" and you must be sure to include them when you offer to buy a home.

For example, some "move-up" buyers often agree to purchase a home before selling their previous home. Even if the home is already sold, it is probably a "pending sale" and has not closed. Therefore, you should make closing your own sale a condition of your offer. If you do not include this as a contingency, you may find yourself making two mortgage payments instead of one.

There are other common contingencies you should include in your offer. Since you probably need a mortgage to buy the home, a condition of your offer should be that you successfully obtain suitable financing. Another condition should be that the property appraises for at least what you agreed to pay for it. During the escrow period you are likely to require certain inspections, and another contingency should be that it pass those inspections.

Basically, contingencies protect you in case you cannot perform or choose not to perform on a promise to buy a home. If you cancel a contract without having built-in conditions and contingencies, you could find yourself forfeiting your earnest money deposit.

Or worse.

Earnest Money Deposit

After you have come up with an offer price, the next step is to determine how large a deposit you want to make with your offer. You want the "earnest money deposit" to be large enough to show the seller you are serious, but not so large you are placing significant funds at risk.

One recommendation is to make sure your deposit is less than two to three percent (depending on your location) of your offered price. The reason for this is that if your deposit is larger than that, the lender will pay particular attention to how you came up with the funds. You might have to provide a copy of a canceled check along with a bank statement showing you had the money to begin with. Normally, this is not a problem, but if you have a short escrow period or are barely coming up with your down payment, it could pose an inconvenience.

Another reason to limit your deposit is "just in case." Although significant problems are the exception and not the rule, they do occur. "Just in case" there is a nasty or prolonged dispute between you and the seller, the less money you have tied up in a deposit, the fewer funds you have placed at risk.

As with practically everything in real estate, there are exceptions to this rule, too. During a hot market there may be multiple offers on the property that interests you. A large deposit may impress a seller enough so they will accept your offer instead of someone else’s, even when your unknown competitor is offering the same price or slightly higher.

Since large deposits do impress sellers, you may also find that by making a large deposit you can convince the seller to accept a lower offer. More money up front may save you money later.

There are also times when closing can be delayed by weeks, through no fault of your own. Have back-up plans prepared for such a contingency.

The Closing Date

It is absolutely essential that you include a closing date as part of your offer. This way both you and the seller can make plans for moving, and the seller can make plans for buying his or her next home. Though most transactions actually do close on the right date, do not be so inflexible that a delay creates insurmountable problems.

For example, if you are renting and need to give the landlord notice that you are moving out, you may want to allow a little flexibility. Otherwise, if your purchase closes a few days late you could find yourself staying in a motel with your belongings packed in a moving van somewhere while you pay storage costs.

There are also times when closing can be delayed by weeks, through no fault of your own. Have back-up plans prepared for such a contingency.

Transfer of Possession

A transaction is considered "closed" once the deeds have been recorded. Then you own the home. However, it is not always possible for you to occupy it immediately. This can happen for several reasons, but the most common is that the seller may be purchasing a home, too. Usually, it is scheduled to close simultaneously with your purchase of their home.

It is sort of like being at a red light when it turns green. Although all the cars see the light change at the same time, the guy at the back of the line doesn’t begin moving until all the cars ahead of him have started.

As a result, it has become customary to allow the seller up to a maximum of three days to turn over actual possession and keys to the home. When transfer of possession actually occurs should be clearly laid out in your offer to prevent confusion later.

Writing an Offer - Safeguards Regarding the Property

Disclosures From the Seller

Although you have toured the property, looked at the walls and ceiling, turned on the faucets and played with the light switches, you have not lived in it. The seller has years of knowledge about his or her home and there may be some things you want to find out about as quickly as possible. For this reason, you will require certain disclosures as part of your offer.

Basically, you want the seller to disclose any adverse conditions that may have a substantial impact on your decision to purchase the home. This would include any problems with the house, whether the property is in a flood zone, a noise zone, or any other kind of hazardous area.

If you have an agent representing you, this is almost automatic, but many states do not require individuals selling their own home to provide you with this information. Often they do not require banks selling foreclosed property to provide these disclosures, either. Obtaining these types of disclosures should always be a part of your offer, and time is of the essence.

Condition of the Property

The last thing you want when you assume possession of your new home is to find it in a total mess. Therefore, you should make it clear in your offer that certain minimum standards are required. If you do not, you might find out the seller or neighbors have begun using the back yard as a trash dump, or something worse – and you would not be able to do anything about it.

Some of the requirements you might want to include in your offer are that the roof does not leak, the appliances work, the plumbing does not leak, that there are no broken or cracked windows, the yard has been kept up, and any debris has been cleared away.

Inspections You Should Require

Besides appraisal and the termite inspection, you should also have a professional go through the house and seek out potential problems. Of course, you will have inspected the home, but you are not used to looking at some things that a professional will find. Even if they are not things the seller is expected to repair, at least you will have foreknowledge of any potential problems.

The seller will want this inspection performed quickly, so that you can approve the results and move forward with the purchase. Once you receive the inspection, you will want to allow yourself sufficient time to review and approve the report. If you do not approve the report, you may negotiate with the sellers on which repairs should be performed and who should pay for those repairs. Otherwise, you can cancel the purchase without penalty, provided you have included timetables in your offer.

Allow a maximum of ten to fifteen days to receive the report and five days to review it.

Final Walk-Through Inspection

Before closing, you will want to revisit the property to ensure it is in the condition you have required in your offer, and to inspect that any required repairs have been performed. You should do this no sooner than five days before you intend to close. Make sure this right to do a final inspection is included in your offer to purchase the home.

How Financing Details Affect Your Offer

Most buyers do not have enough cash available to buy a home, so they need to obtain a mortgage to finance the purchase. Since you will probably make your purchase contingent upon obtaining a mortgage, the seller has the right to be informed of your financing plans in order to evaluate them. That is one of the major reasons that financing details are included in your offer.

Down Payment

As part of your offer, you will need to disclose the size of your down payment. Once again, this allows the seller to evaluate your likelihood of obtaining a home loan. It is easier to get approved for a mortgage when you make a larger down payment. The underwriting guidelines are less strict.

Interest Rates

Another reason for including financing information in your offer is to protect yourself. If interest rates suddenly become volatile and rise quickly, as sometimes happens, you may looking at a mortgage payment much higher than you anticipated. By putting a maximum acceptable interest rate in the offer, you are protecting yourself from such an occurrence.

At the same time, the seller will probably want to see that you have some flexibility in the financing terms you are willing to accept. If interest rates are currently at eight percent and you indicate this is the highest rate you will accept, you would be able to cancel the contract without penalty if interest rates rose past that point. The seller would suffer because they have lost valuable marketing time and may have made their own plans based on successfully closing the transaction.

Closing Costs and Financing Incentives

There may be times when, as part of your offer, you request the seller to pay all or a portion of your closing costs, or provide some other financial incentive. One common request is asking the seller to provide funds to temporarily buy down your interest rate for the first year or two. Such incentives can be especially effective if a buyer is tight on money or pushing their qualifying ratios to the limit.

Whenever you ask for incentives such as these, you will probably find the seller less willing to negotiate on price. After all, what you are really asking for is to have the seller to give you some money to help you buy their house. The end result is that, for a little relief in the beginning, you are willing to pay a little more in the long run

Seller Financing

Another occasional request is to have the seller "carry back" a second mortgage to help facilitate your purchase of their home. In cases when the seller does not need all the proceeds from their sale in order to purchase their next home, this is an option. The advantage to the buyer is that by combining your down payment and the second mortgage from the seller, you may be able to avoid paying mortgage insurance and save yourself some money.

If such a carry-back is part of your offer, you should include the terms you wish to pay on such a second mortgage. Keep in mind that your first trust deed lender needs to know this information so they can underwrite your loan, and they have certain minimum requirements. The minimum term of the second mortgage can be five years. The minimum payment can be "interest only." Longer mortgage terms and payments that also include principle are also acceptable.

Cash Offers

If you are one of those rare individuals making a cash offer to buy a home, it makes sense to provide some documentation with your offer that shows you have the funds available. A bank statement would be fine. If you have to liquidate stock or some other asset, your offer should give a timetable on when you will provide proof you have converted the asset to cash.

Other Financing Details in Your Offer

Your offer should also contain information on whether you are obtaining a fixed rate or an adjustable rate mortgage. It should also state whether you are obtaining conventional financing or obtaining a VA or FHA loan.

How FHA and VA Loans Affect Your Offer

Extra Costs to the Seller

If you are obtaining a VA or FHA loan in order to finance your purchase, you must include that information in your offer. This is because government loans place additional financial and performance obligations on the seller.

Non-Allowable Fees

First, VA and FHA loans prohibit buyers from paying certain types of fees that are often charged by lenders, escrow companies, settlement agents, and title companies. They are called "non-allowable" fees. They still get charged anyway, but as the buyer, you are "not allowed" to pay them. The result is that the seller ends up paying them instead of you.

Most of these "non-allowable" fees come from your lender. By the time you are making an offer you should have already been pre-qualified by a loan officer, so you or your real estate agent can ask how much the lender's non-allowable fees will be. Experienced agents should also have an idea of what non-allowable fees will be charged by the escrow or settlement agent and the title insurance company.

Since these are fees the seller would not pay on an offer with conventional financing, this information must be included in your offer. You should also realize that since the seller will be paying these additional fees, they may be a little less negotiable on the price.

VA and FHA Appraisals

Home appraisal inspections on FHA and VA loans are a little more detailed than on conventional loans (and more expensive). The appraisers are required to perform certain minimum inspections as well as evaluate the market value of the property. Although these inspections are not as detailed as a professional home inspection and should not be considered a substitute, sometimes repairs are required.

These are additional costs the seller would not be obligated to pay for someone obtaining conventional financing, so your offer should include a maximum figure for these repairs. Otherwise the seller is signing the equivalent of a blank check, and they do not want to do that.

At the same time, whatever figure you put in will most likely affect the seller's willingness to negotiate on price. If you put $500 as an estimate, the seller may be $500 less negotiable on their price. If no repairs are required, you may have been able to get the house for $500 less than what you and the seller agreed on as the price. The solution is to add a clause to your offer that goes something like this. "If required repairs cost less than the maximum amount allowed, the excess will be credited toward buyer's closing costs."

Selecting Service Providers

You and the Seller Must Agree

Buying a home does not occur in a vacuum, involving only you and the seller. There are all kinds of people and services involved behind the scenes to make it happen. Since some of these services affect both you and the seller, there will have to be an agreement on which companies you will use for them. When you make your offer, you should request your favorites for these services. If you are unfamiliar with these service providers, you can get recommendations from your agent.

Escrow and Settlement

For example, you are going to need an escrow or settlement company to act as an "independent third party" between you and the seller. Without having a third party involved, how do you know that when you fork over the money, you are going to get the deed? This is the type of service provided by escrow and settlement. They will hold your deposit and coordinate much of the activity that goes on during the escrow period.

Since this third party is very important to both you and the seller and both of you will pay fees to this company, it is important to agree on which service to use. Therefore, your choice should be part of the offer. Since you do not buy a home every other week or so, you are probably unfamiliar with companies that provide this service. Your agent will make a recommendation. You have the authority to accept this recommendation and include it in your offer, or make your own choice.

Keep in mind that the seller will also have a preference and this may be a point of negotiation in a counter-offer. It has become customary that one side will choose the escrow/settlement agent and one side chooses the title insurance company. Even so, everything in real estate is negotiable.

Title Insurance

Title insurance is important because, by providing you with an Owners Policy, they insure that you have clear title to the property. If there are any problems later, you can always go back to the title insurance company and have them clear it up. Since it is customary for the seller to pay for the owner’s policy, they have an interest in which company is used.

However, you are going to pay a fee to the title insurance company, too. This is for the Lender’s Policy. The lender’s policy insures your mortgage lender that there are no liens or judgments against the property and that the mortgage will be in first position. In other words, should you sell the property or refinance it, their mortgage gets paid first, before any other claims against the property.

The lender’s policy is less expensive than the owner’s policy.

Termite and Pest Inspection

As part of your offer, you may require a termite and pest inspection. This company not only inspects for termite damage and pest infestations, but also inspects for dry rot and water damage, among other things. The company that performs the inspection is important to you as a buyer, because you want to be sure they do a good job. It is important to the seller because it is customary that they pay for the inspection and some types of repairs that may be required.

You should determine which company you want to perform this inspection and make it a part of your offer. Otherwise the seller will choose. If you do not know which company to hire, your agent will make a recommendation.