REAL ESTATE
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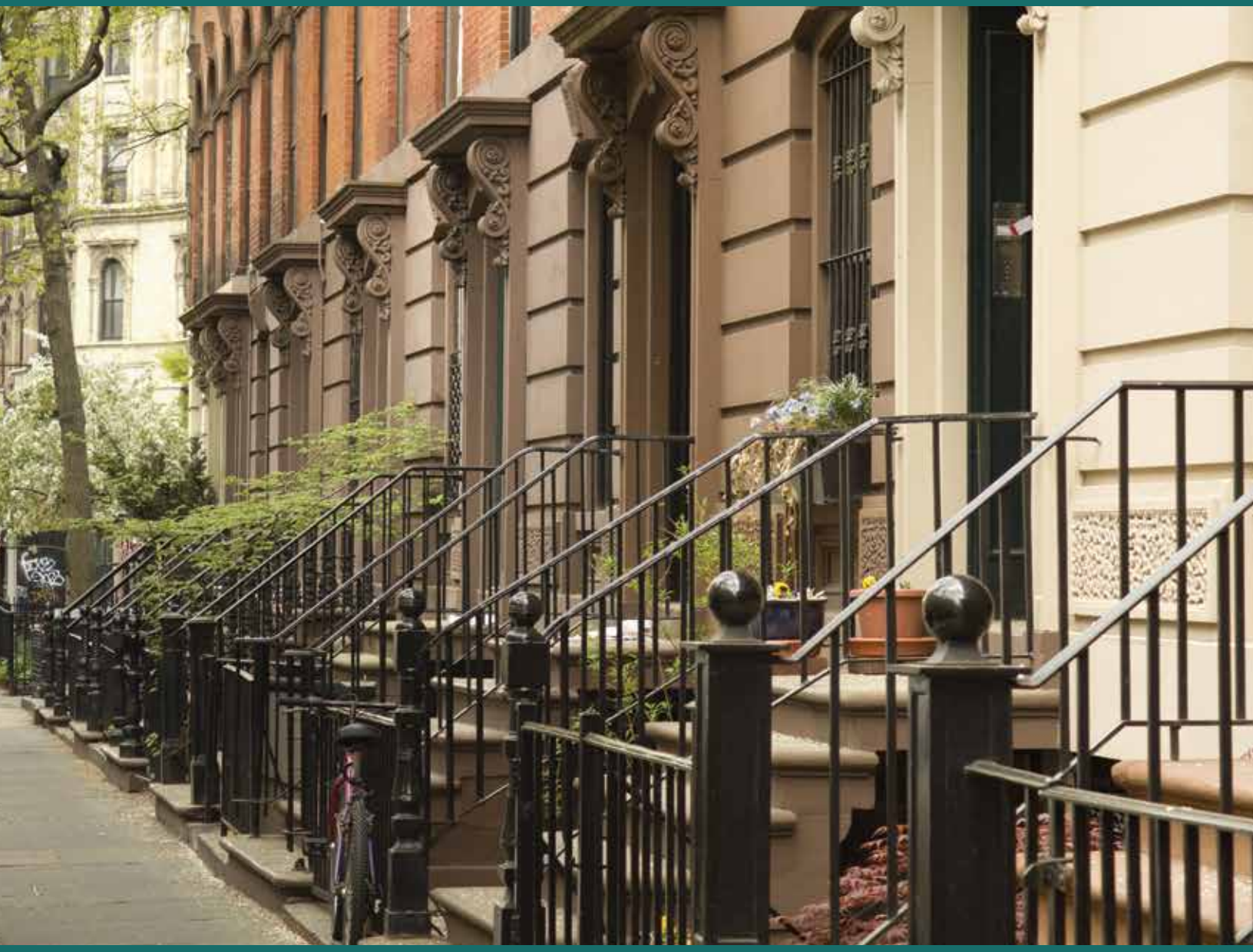
FREE SAMPLE E-BOOK

HOME BUYING MANUAL

The Art of Buying and Investing in Today's NYC Market



GREGORY J. CAVINESS

Textbook for **ESSENTIAL HOMEBUYER'S WORKSHOP**

Introduction

Buying a home is an important financial decision that should be considered carefully. This manual will help you become familiar with the various stages of the home-buying process, including deciding whether you are ready to buy a home and providing factors to consider in determining how much you can afford to spend. You will learn about the sales agreement and how to shop for a house.

Buying a home is one of the most exciting events in your life and is likely to be the most expensive purchase that you will ever make. Before you make a commitment, make sure you are ready.

There have been many books and guides written on the subject of home buying. This manual is designed to present the home buying process in the simplest manner. It is intended to unravel the complexities associated with the home buying process.

This manual is compiled by leading Real Estate Education Center real estate professionals who are experienced in working with home buyers and sellers and are among the industry leaders in teaching real estate to licensed real estate professionals.

Using this manual as your guide will help you avoid the pitfalls in the home buying process and help you achieve the joys of home ownership.

Chapter 1

Getting Your Financial House in Order

Strengthening your credit

The importance of good credit is an important consideration in securing a mortgage for the purchase of a home. Banks and credit card companies decide whether to lend you money and what interest rates you will pay based on your credit score. Be prepared to examine your past credit performance and, if necessary, make changes to your money habits. Your credit score is a number that helps a lender predict how likely an individual is to repay a loan, or make credit payments on time.

The most common credit scoring system is FICO (Fair, Isaac, & Co.) scoring which has a scoring range of from 300 – 850. The higher your FICO score, the more likely a creditor will extend credit and the most advantageous (lower) will be the interest rates available to you. Lower scores, likewise, will yield the opposite results.

Improving your FICO score will go a long way in increasing your chances of securing a mortgage loan at the most beneficial interest rate. *Scoring factors include the following:*

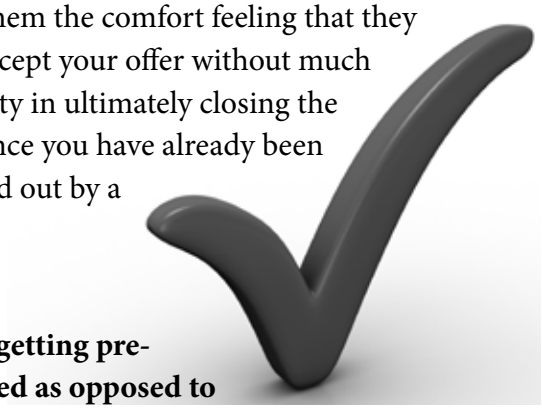
- **Payment History (35%)** – Tracks your history of payments with various creditors/lenders, length of time that has passed since the most recent negative credit item, severe unpaid debts, public records, and severity and quantity of delinquent payment accounts.
- **Outstanding Debts (30%)** – Takes into account quantity of credit accounts, ratio of credit balances to credit limit, the amount owed on all accounts, how much is owed on each type of account, and how much is paid off.

- **Length of Credit History (15%)** – Looks at your overall length of credit history, how long have specific accounts been established, and how long it has been since you used certain accounts.
- **New Credit (10%)** – Reviews how many new accounts particularly credit card accounts you open, how long has it been since you opened a new account, how many recent request for new credit inquiries have you made.
- **Types of Credit Used (10%)** – Do you have a "healthy" mix of installment and revolving accounts? Avoid finance company and unsecured credit cards. Use national cards.

Get pre-approved to get the mortgage

Apply to several lenders within a 30-day period so that the inquiries do not damage your credit score. You may want to do this before contacting a real estate agent so that you have a firm idea of how much of a house you can afford and avoid purchasing a house beyond your means. *In addition:*

- **Sellers love buyers who get pre-approved.** It gives them the comfort feeling that they may accept your offer without much difficulty in ultimately closing the deal since you have already been checked out by a lender.



- **Avoid getting pre-qualified as opposed to getting pre-approved.** Pre-qualification is simply an estimate by the lender of how much you can afford to borrow without verifying your financial information. Pre-approval, which is much stronger than pre-qualification, means that the lender is usually prepared to give you a loan pending verification of your financial information.

Shop for your mortgage

Your choice of mortgage lender or broker, as well as the type of loan, will influence your closing costs and your monthly mortgage payment. You may find a listing of local lenders and mortgage brokers on the internet or in the yellow pages, or your local newspaper. You may also ask your family and friends about loan originators they have used and recommend.

Shopping for a mortgage before deciding on a house can be beneficial for several reasons...

Several Pages Have Been Skipped!
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www.reedc.com/workshops

Start to think about what you are really looking for in a home

You probably already have a vague idea about what you want in your home. *There are a few considerations in particular that you and your family should give good thought to:*

- **What will you and your family need in several years?** Maybe you are just a couple right now, but are there plans for kids in the future? Or maybe an anticipation of an elderly relative moving in sometime in the future?
- **What tradeoffs are you willing to make?** In other

words, what are your priorities? Although we like to believe that buying a house can be straightforward, it is often a complex ordeal in which we are forced to compromise. Do you care more about a safe neighborhood and good schools over a big backyard? Do you need a big, workable kitchen more than a big luxurious bedroom? What are you willing to sacrifice when it is crunch time? A **House Checklist** is included at **Attachment E** to assist you in making these decisions.

- **Do you expect your income to increase significantly over the next couple years?** If your income has increased by 3% for several years in a row and you hold a secure job in a safe industry, you can probably be rest assured that buying an expensive but still reasonable mortgage is possible. Many homebuyers buy relatively expensive houses then grow into their mortgage after a couple of years. If your industry's future is uncertain, then you may consider a mortgage that is affordable in anticipation of any future financial crisis. Many first-time home buyers will consider buying a two or more family home in order to make home-ownership more affordable. Buying a home that has a rental income can help you qualify for a somewhat larger loan and can help substantially with your monthly mortgage payments, but also comes with additional responsibilities and higher maintenance and upkeep.

Define the area you would like to live in

Scout the neighborhood that you are interested in. Look at prices, home design, proximity to shopping, schools and other amenities. Read the local newspaper, and chat with the local business owners and home owners. Look beyond the home to the neighborhood and the condition of nearby homes to make sure you are not buying the highest priced house in the area. A **Neighborhood/Home Analysis** may be useful in defining your desired area (**Attachment F**). *Consider the following:*

- The area in which your home is located is sometimes a bigger consideration than the home itself, since it has a major impact on your home's resale value. Buying a fixer-upper in the right neighborhood can be a great investment, and being able to identify up-and-coming communities where more people want to live can lead you to a bargain property that will only appreciate in value. Buying a home in an area with good schools is always a good investment even if you don't have school-aged children. When it comes time to sell, you will learn that strong school districts are a top priority for many home buyers, thus helping to boost property values.

- **Visit a few open houses to gauge what is on the market and see firsthand what you want.** Pay attention to overall layout, number of bedrooms and bathrooms, kitchen amenities, and storage. Visit properties that you are seriously interested in at various times of the day to check traffic and congestion, availability of parking, noise levels and general activities occurring at various times of the

day. What may seem like a peaceful neighborhood at lunchtime can become a congested noise maker during rush hour or, an after party hangout for late night partygoers.

- **Look at comparable houses in the neighborhood.** If you are unsure about the price, you may have the home appraised by a local appraiser, who also looks at comparables of similar houses in the same neighborhood. When appraising a home, appraisers will look for comparables or "comps". These are homes in the area which have similar features, size, age, number bedrooms, architectural style, etc. If your home is more expensive than the comps, or the appraiser has to find comps in a different neighborhood more than 1/2 mile away, then this house may not be priced to your best benefit. Never buy the most expensive house in the neighborhood. Your bank may balk at financing the home, and you probably will not see your home appreciate in value very much. If you can, buy the least expensive home in the neighborhood-as homes around you sell for more money than you paid, your home's value increases incrementally.

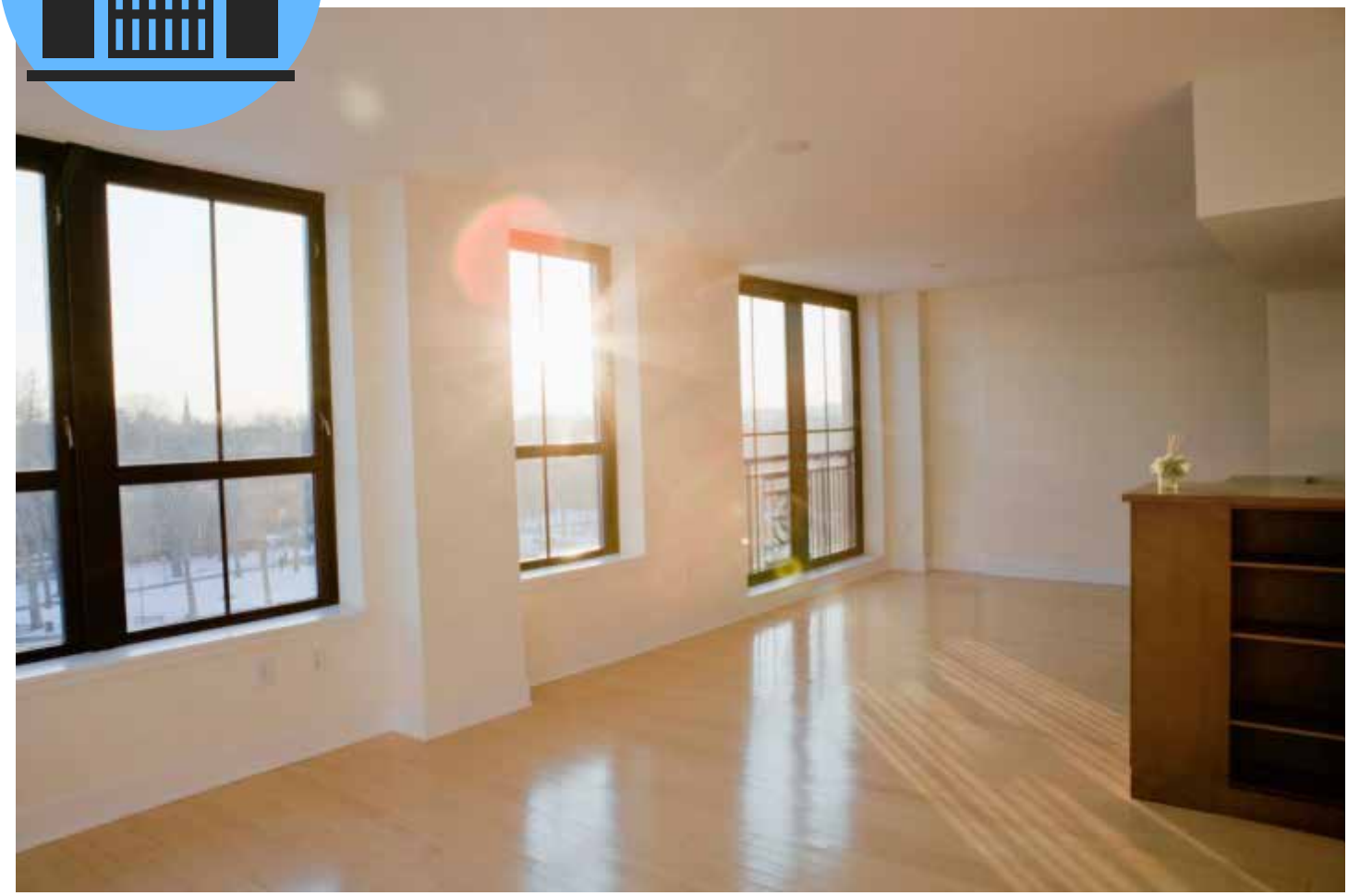
- **Look at area market conditions.** Market conditions fluctuate greatly depending on the economy, supply-and-demand factors, and seasonal considerations. Supply and demand implies that if properties are in short supply, there will be greater demand for those few properties available, therefore prices would be higher. If properties are plentiful, there will be more competition resulting in lower prices. Seasonal considerations include holidays, weather, and the start of the school year. Traditionally, houses sell at higher prices in the Spring and Summer because demand is greater. Conversely, houses sell at lower prices during the Winter due to decrease in demand.

Use the worksheet at **Attachment G** to calculate your monthly income and expenses to determine the amount you have left over every month to pay for house related expenses such as your monthly loan payment, property taxes and homeowner's insurance.

Turn Page for more...

Chapter 5

Buying Cooperatives and Condominimums



New York City housing

New York City is comprised mainly of cooperative and condominium apartments with a selection of private homes called townhouses or brownstones. Most important is understanding the differences between the two types of apartments you will find in Manhattan. In Manhattan, 85% of apartments available for purchase are cooperative buildings, while 15% are condominiums. The major difference is the form of ownership.

Structure of a Cooperative (Co-op)

Cooperatives are owned by the Cooperative Corporation. Individual tenants do not own their apartment as they would in the case of real property. Individual tenants, instead, own shares in the cooperative corporation, which entitles them to a long-term proprietary lease. The corporation pays the building's underlying mortgage(s) on the entire building. The corporation also pays real estate taxes, building employee salaries and other operating expenses for the building's upkeep. The tenant-shareholder pays a share of these expenses as determined by the number of shares the tenant-shareholder owns in the corporation. This is called the monthly maintenance payment. Share amounts are determined by apartment size, floor level, and location in building.

Considerations when buying a Co-op

The Board of Directors, which is elected by all of the tenant-shareholders of the co-op, interviews all

prospective shareholders. They have the responsibility of protecting the interests of their fellow tenant-shareholders by selecting well-qualified candidates. *The Board has the following responsibilities:*

- Approve or disapprove all shareholder candidates.
- Oversee the quality of services and ensure that the security of the building is kept at high standards.
- Ensure that portions of the monthly maintenance are tax deductible to each tenant-shareholder. Each building has its own tax structure, but all co-ops offer a tax advantage. Shareholders can deduct their portion of the building's real estate taxes, as well as the interest on the building's underlying mortgage from their reported income.
- Determine the amount of money that may be financed. Some buildings require substantial down payments. Generally speaking, in Manhattan, prospective purchasers should be prepared to put down at least 20% to 25% of the purchase price. This could be considerably higher in some of the more exclusive buildings.
- Must approve all sublets if allowed. Each co-op corporation has its own rules regarding sublets. You should review these house rules regarding this if you intend to sublet your apartment.

Structure of a Condominium (Condo)

While condominiums are quite common throughout the country, they are a rather new concept for New York City. A condominium apartment is real property. The buyer gets a deed to the apartment just as if you were buying a house. Since this is real property, there is a separate tax lot for each apartment. This means

you pay your own real estate taxes for your property. An owner will also pay common charges on a monthly basis. Common charges are similar to maintenance in a cooperative. However, they do not include real estate taxes since these are billed and paid separately by the apartment owner. They do not include the building's mortgage since a condominium, by law, cannot have an underlying mortgage.

- A Board of Directors manages the condominium but the purchase and financing requirements are more flexible.
- Generally, a buyer can finance up to 90% of the condominium's purchase price.
- While there is an application process and a Board of Director's review, this process is not as formal as in a cooperative.
- There is greater flexibility in sub-leasing your apartment. This makes condominiums an ideal choice for investment opportunities.
- They are the ideal choice for non-U.S. citizens or for those with their assets held outside of the United States. This is because co-ops are unlikely to approve a buyer whose funds are not in the U.S.

Given that there are fewer condominiums than cooperatives and that they are easier to purchase, they are generally more expensive than co-ops. Additionally, monthly combined common charges and real estate taxes in a condo are typically less than a co-op's

monthly maintenance charges, again resulting in higher purchase prices.

Steps in buying a Cooperative or Condominium

Typically a managing agent will manage the coop or condo under the guidance of and on behalf of the board of directors. *The following steps may be applied when purchasing these properties:*

- Get pre-approved for a mortgage
- Find an apartment
- Negotiate the sales price of the apartment
- Sign a Sales Agreement with the seller
- Apply for a mortgage
- Complete a co-op board package or condo application (includes your financial documents, tax returns, personal references, sales agreement, mortgage loan commitment)
- Submit co-op board package or condo application to the managing agent for review
- Meet the co-op board for an interview
- Receive approval from the board
- Schedule the closing

Typical time frame from the time an apartment is found to closing is 3-5 months. Rejection is minimal

Chapter 6

Buying Foreclosed and Short Sale Properties

Foreclosed property

Foreclosure is a specific legal process which occurs when the lender attempts to recover the balance of a loan from a borrower who has stopped making mortgage payments. The process involves the transfer of title (ownership) to the lender after there has been a default in payments. Once title is transferred, the lender then forces the sale of the property to recover the balance owed on the mortgage.

Short Sale

A short sale is a sale of real estate in which the proceeds from the selling of the property (prior to foreclosure) will fall short of the balance owed to the lender. Short sales are also known as pre-foreclosure sales.

Finding "distressed" properties

Because of the financial crisis in home ownership occurring from 2007 through 2011, many properties can be purchased below market value through foreclosure and other bank owned property, government owned property, or short sales. These types of purchases offer the buyer purchase opportunities at substantial discounts. Properties scheduled for foreclosure sales are listed in the local newspapers under foreclosure notices. A real estate agent may locate foreclosed or short sale properties through the local Multiple Listing Service (MLS).

FHA foreclosures may be bid on through participating real estate brokers, and certain websites will list foreclosure properties. *These include:*

- Trulia.com
- Zillow.com
- Propertyshark.com
- Homepath.com (Fannie Mae foreclosures)
- Homesteps.com (Freddie Mac foreclosures)
- Auctions.com
- ForeclosuresUS.com
- Realtytrac.com

Steps in purchasing "distressed" properties

Once the lender is given title to the property through the courts as a result of the foreclosure proceeding, the property is now known as an "REO" property (Real Estate Owned by the lender). The lender will try to sell the property at auction to attempt to recoup the balance owed on the mortgage. If this attempt fails to yield a sufficient price, the bank will then likely hire a local real estate agent to put the property on the market. The longer the home is on the market, the more willing the lender is to work with you on the selling price. Keep in mind, banks are not in the business of owning real estate - they want to get rid of it as quickly as possible.

In purchasing these foreclosed properties you should consider the following:

- Get a pre-approval from a mortgage lender who has verified your income and assets. This will give you more negotiating power.
- Pick a zip code you are interested in and do the research on what homes are selling for and the recent trends with property values in that area.
- Get an inspection done and make your offer contingent on satisfactory results from the inspection. Most foreclosure properties are in disrepair. Make sure the property is structurally sound with no major improvements.
- Determine potential repairs and their costs.
- Work with an experienced real estate agent who has access to local multiple listing services and can

End of Sample!
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Amortization Sheet

Monthly Payment Factors

Per $1,000 of Original Loan Amount

Interest Rate	30	25	20	15	10	5
3.00%	4.2160	4.7421	5.5460	6.9058	9.6561	17.9687
3.25%	4.3521	4.8732	5.6720	7.0267	9.7719	18.0800
3.50%	4.4904	5.0062	5.7996	7.1488	9.8886	18.1917
3.75%	4.6312	5.1413	5.9289	7.2722	10.0061	18.3039
4.00%	4.7742	5.2784	6.0598	7.3969	10.1245	18.4165
4.25%	4.9194	5.4174	6.1923	7.5228	10.2438	18.5296
4.50%	5.0669	5.5583	6.3265	7.6499	10.3638	18.6430
4.75%	5.2165	5.7012	6.4622	7.7783	10.4848	18.7569
5.00%	5.3682	5.8459	6.5996	7.9079	10.6066	18.8712
5.25%	5.5220	5.9925	6.7384	8.0388	10.7292	18.9860
5.50%	5.6779	6.1409	6.8789	8.1708	10.8526	19.1012
5.75%	5.8357	6.2911	7.2080	8.3041	10.9769	19.2168
6.00%	5.9955	6.4430	7.1643	8.4386	11.1021	19.3328
6.25%	6.1572	6.5967	7.3093	8.5742	11.2280	19.4493
6.50%	6.3207	6.7521	7.4557	8.7111	11.3548	19.5661
6.75%	6.4860	6.9091	7.6036	8.8491	11.4825	19.6835
7.00%	6.6530	7.0678	7.7530	8.9883	11.6108	19.8120
7.25%	6.8218	7.2281	7.9380	9.1286	11.7401	19.9194
7.50%	6.9921	7.3899	8.0559	9.2701	11.8702	20.0379
7.75%	7.1641	7.5533	8.2095	9.4128	12.0011	20.1570
8.00%	7.3373	7.7182	8.3644	9.5565	12.1328	20.2764

For Example: If the mortgage is $500,000

and the int. rate = **4.00%**

over a 30 year mortgage term, the calculation is: **30**

Step 1: 450,000/1,000 (or x 0.001) = 500

Step 2: Find payment factor for applicable interest rate and term

where 7.0% intersects with the 30 year term = 4.7742

Step 3: Multiply 450 x Payment Factor (6.653) = $2,387.10