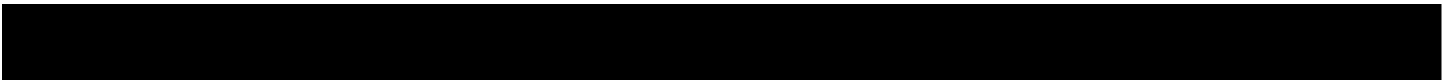
McAlister & Young
125 Belle Forest #103
Nashville, TN 37221
Phone: (615) 673-2998

McAlister & Young

49 Essential Tips Every Home Buyer Should Know

A Helpful Guide For Saving Time, Money, and Frustrations When Finding, Buying and Financing Your Next Home…



"You Don't Make Money
When You Sell A Home,
You Make Money
When You Buy It!"

Terry McAlister
Susanne Young

"Why Most Home Buyers Lose Thousands Of Dollars When Finding, Buying And Financing Their Home…"

Dear Friend,

It's true. Even savvy home buyers lose thousands of dollars…even tens of thousands of dollars they could have "pocketed" had they known about the important "secrets" that make up a successful purchase of a great home.

They don't lose money because someone took advantage of them. And they don't lose money because of the economy. The problem is…

"Most People Don't Plan To Fail…But Fail To Plan."

If you're in the market to buy a home anytime soon, and you want to find the perfect home at the best possible price, terms, and financing, there are THREE things you need to do up front:

First, understand and get control of your personal emotions about the purchase of your home Second, get the most valuable, important information available so you make a prudent and educated decision. And third, become informed about the very best financial resources and products to fit YOUR needs…NOW, not later.

After all, buying your home is very different from any other financial transaction. It isn't just a "home," it's a transaction that affects your monthly overhead expenses…your ultimate net worth…your retirement…your kids education…and much more.

So it's no surprise that buying your home may involve a bit of fear, anxiety, frustration…or even excitement for that next move in your life.

The secret is…try not to let these emotions get in the way of a prudent purchase. The tips and information in this report will help you have a better understanding of most, if not all, aspects involved with the purchase of your next home.

So, let's examine some of the critical questions you might have with your next home purchase…

1. What is an "as is" sale?

An "as is" property is sold without a warranty as to condition, repairs, or structure. With an "as is" sale, the buyer is on notice that the seller makes no promises regarding the property's physical status. With an "as is" sale, it is extremely difficult to make a claim against a seller if something is found to be wrong with the property after closing. "As is" clauses should be seen as an absolute requirement to make the transaction contingent on a professional inspection "satisfactory" to you. With a properly written sale agreement contingency, if you are not satisfied, then the deal is dead and you can get back your deposit in full.

2. How long must I live in a house once I buy?

When you apply for a loan, a lender will ask if you intend to use the property as a prime residence. If the answer is "yes," then it is expected that you will physically move into the property and live there for some time. There does not seem to be a set definition in the term "some time," but what lenders are getting at is this: They do not want to make residential loans with low rates and little down to investors.

Thus, if someone gets a residential mortgage, instantly moves out, and quickly rents the place, lenders will be more than unhappy - they may call the loan. They may also review the loan application to see if fraud was involved. Lenders do not want borrowers to move in and then rapidly move out, but they will look at the "facts and circumstances" if such an event occurs. For instance, a sudden job change not known in advance might be a valid reason for a move after several months of occupancy. What lenders do not want are situations where a "residential" borrower is actually a disguised investor. Given that most homes are occupied for 8-10 years, a move after several months or a year is likely to set off bells.

3. Can I buy real estate with no money down?

Yes. Millions of people have bought real estate with no money down through the VA loan program.

If you mean, can you buy real estate at a discount of 20% or 25% with no cash or credit, and then instantly sell or rent the place at a profit, then the answer is probably not. Why "probably" instead of "absolutely" not? Because in a marketplace with millions of transactions each year, somebody somewhere has made a deal with no money down and rented or sold at a profit. But it is also true that somebody somewhere was hit by lightening. The problem is that the term "no money down" is sometimes in the worst cases a code expression for a deal where someone without cash or credit wishes to buy property from someone who is needy, unsophisticated, desperate, in mourning, etc. Under the guise of "helping" the owner, buyers offer to purchase property at 20% off, or more, and with subordination and substitution clauses. Of course, if purchasers really meant to be helpful, they would surely pay full market values. Let's be clear. If no-money-down schemes are so wonderful, why do folks who engage in such investments have a need for "partners" with cash?

Rather than get-rich-quick tapes and seminars, prospective investors are best served by taking a basic real estate license class in your state. This will explain much about financing, marketing, title, and other issues. It will also allow an individual to take the entry-level real estate exam and qualify for a license.

4. We made an offer on a home that was about 5% below the asking price. Our offer was rejected. What can we do to make the owners more reasonable?

Who says the owners aren't reasonable? They have established a market price for their home. If they can get that price within a reasonable time frame, then they have logically priced their home. If the price cannot be obtained, they will lower either the price or the property will be withdrawn from the market. Because your experience in a different market made selling at a loss acceptable, that does not mean the same logic applies in other markets, or that your choice

should in any way impact the sellers. Perhaps it would make sense to restructure your offer - maybe raise your price but seek better terms.

5. Where can I get more information regarding accessible housing options?

Try the following sources:

- State architectural associations.
- Local builders.
- State and local builder organizations.
- Hardware and building supply outlets.
- University architectural schools.
- The library of the National Association of Home Builders in Washington, DC.
- Local public housing agencies.
- Local chapters of associations that serve those with special needs.

6. We are handy and want to buy a house using sweat equity for a down payment. Will lenders go for this?

From time-to-time, you hear about lenders that allow the use of sweat equity as a credit toward a down payment, but not all of it. Most lenders, however, are not thrilled with this concept. The problem is valuing labor. If a professional paints a house there is work completed to a given standard (that helps maintain the value of the home, and the lender's security if the loan is defaulted) and there is a bill for labor and expenses (paint, caulk, etc.).

With sweat equity, there can be a cost for supplies, but how is labor valued? At the same rate as for a professional? A discount? And what about workmanship?

The best approach is to speak with as many lenders as possible to see if they have a program that allows the use of sweat equity. Ask about the maximum sweat equity contribution allowed, total cash needed to close, rates, points, etc.

7. Can I discount the sale price to create a down payment?

No. Lenders provide financing based on the sale price or the appraised value, whatever is less. In the case of a "discounted" price, say selling a home worth $150,000 for $140,000, the sale price is $140,000. Lenders do not recognize a discount.

A better approach is to pay full market value but to make the transaction dependent on a "seller contribution" at closing. The effect is the same, but the accounting makes more sense to lenders.

8. What is a "due-on-sale" clause?

When a home is financed, the borrower agrees to make regular monthly payments. However, if those payments are not made, if they are late, or if the lender's security is reduced (by not making payments, damaging the property, not maintaining insurance, not paying property taxes, selling the property, selling a part of the property by placing someone else on the title, etc.), then the lender has the right to call for the complete and immediate (say within 30 days) repayment of the loan. The mortgage language outlining the lender's rights is generally called a "due-on-sale" or "acceleration" clause. One effect of a due-on-sale clause is that it effectively prevents a loan from being assumed.

Borrowers should note that state and federal law may limit the ability of lenders to enforce a due-on-sale clause. For instance, a title change in the event of an estate situation may be allowed.

9. What is a "land contract?"

A "land contract" or "contract for deed" or "agreement for sale" is an installment sale you buy today but only get title after some or all of the payments are made. If you miss a payment, you could lose some or all your equity. Because title has not been transferred, there is nothing to foreclose. Some states, however, have special provisions protecting those who buy property with a land contract.

Be careful in a land contract situation to look at the proposed financing. Is lender approval required? If yes, and such approval is not received, the loan could be called.
State rules regarding land contracts vary extensively and such arrangements should be reviewed by an attorney or legal clinic before acceptance.

10. What are the pros and cons of a land contract?

A land contract may allow a buyer to obtain real estate even if he or she is not able to obtain financing through regular loan channels. A land contract may allow a seller to market a property when interest rates are high.

If a buyer with limited financial capacity purchases with a land contract, then a seller may have problems collecting monthly payments. However, since a buyer with a land contract does not have title until all conditions are met, it is often possible for the seller to get the property back with a "forfeiture" rather than a "foreclosure." The attraction of a forfeiture is that it is much quicker to obtain than a foreclosure. It is also a complex undertaking that should only be done with an attorney.

If a land contract involves the use of existing financing that cannot be assumed, that could set-off a due-on-sale clause. Both buyers and sellers could lose the property if the loan cannot be repaid.

Or, suppose Seller Jones sells a property to Buyer Smith using a land contract. Title will remain in Jones' name until Smith makes a certain number of payments. But suppose that Jones goes bankrupt. What rights does Smith have to the property? Or, suppose Jones does not pay the property taxes? If the local government forecloses, what rights does Smith have?

Also, what happens if Seller Jones goes off to Tahiti? How does Buyer Smith get title?
Land contracts should be seen as complex arrangements. Both buyers and sellers should consult an attorney or legal clinic (separately) to assure that all aspects of the transaction are fully understood.

11. What is a "seller contribution?"

A sale agreement typically includes both a purchase price for the property as well as terms and conditions. It sometimes happens that a buyer will make an offer subject to certain terms. (I'll buy your house, but I want to keep the washer and dryer, etc.)

One possible condition concerns "seller contributions." (For example, I'll buy your house if you will pay the first $x of my closing costs.) Lenders will generally accept seller contributions as part of a transaction providing they are written into the sale agreement, fully disclosed and only

represent a limited fraction of the sale price. Different loan programs have different contribution caps. Lenders and brokers can provide specific advice.

A seller contribution can be a useful bargaining chip in slow markets. (Buy my house and you can have a credit of $x at closing.) It's a thought that goes a long way with cash-strapped buyers.

12. Can I rent out a room to help me qualify for a loan?

Generally no. Lenders have no assurance that such income will be regular and continuing.

13. Can we use private financing to buy real estate?

In theory, yes. In practice, not really. The odds against private financing are substantial. In 1997, according to the NATIONAL ASSOCIATION OF REALTORS®, 74% of all first-time buyers obtained financing from mortgage companies, 19% from commercial banks, 1% from Saving & Loans, 1% from "other" sources, 1% from credit unions, and 1% from private investors.

14. We have stock that has significant value and we think its price will increase. How can we come up with a down payment without selling our shares?

This is an increasingly common and delightful problem. A home purchase typically requires either a sizable down payment, say 20%, or some form of backing by a third party, perhaps the FHA, VA, or a private mortgage insurance (PMI) company to buy with less down. With a third party, loans with 15, 10, 5, and 3% and even nothing down are possible. So, one choice is to look for financing with as little down as possible. A second choice is to look at RAM financing, a reserve account mortgage.

With a RAM loan, you might get 100% financing. At the same time, you would deposit an asset with the lender; say the stock you do not want to sell. The lender then holds onto the stock until the property has a certain level of equity caused loan amortization (reducing the size of the loan through payments) and, hopefully, increasing property values. The borrower has 100% financing.

RAM financing raises important questions: Who gets the interest on the account? What if the value of the securities declines? How is the new value for the property determined? What is the monthly payment? Is all interest deductible? Mortgage lenders and securities brokers can provide additional information.

15. What is "MCC" financing?

Because states have better credit than people do, they can borrow money at low rates. Under Mortgage Credit Certificate (MCC) programs, states lend money to first-time buyers and low-income buyers (usually) at below-market rates (but at rates that cover the interest cost of floating bond issues) and with little down (say 1% to 5%).

MCC's allow you to borrow money and to write off a portion of the interest, up to 20%, as a tax credit. The remaining interest deduction is just a write off.

For example, suppose your interest cost for a year is $5,000 and that 20% can be used as a tax credit. On your federal taxes, you would deduct $4,000 as an itemized expense, and you would deduct $1,000 (20% of $5,000) from your tax bill. See a tax pro for details.

Speak with local lenders to see if MCC financing is now available. Because funding is limited, these programs often run out of money quickly.

16. How quickly must I apply for a loan?

Many sale agreements require buyers to apply for a mortgage within a specific time period, say seven days after the contract is signed. This is a negotiable item, however, and can be any period agreeable to both parties.

This is an important matter because if an application is not made, then a buyer may be in violation of the sale agreement. A violation of the sale agreement, in turn, could be grounds to forfeit the deposit. Thus, buyers should go through the sale agreement with great care before signing to assure that all obligations are known and understood. Work with an appropriate professional such as a buyer broker when reviewing a sale agreement.

When you meet with a lender, be certain to obtain a letter stating that you met and showing when. Immediately provide this letter to the seller’s broker in the manner required by the sale agreement.

17. Can I buy a house with an award from a lawsuit?

Sure, if the money is there. But until the matter is finally resolved (appeals run out, and a check is cashed) how does anyone know that there will be money available for a realty purchase?

What if someone contracts to buy a home today with $20,000 in cash due at closing in 60 days, money that will be generated from the settlement of a suit. And what happens if the suit is delayed? Money at closing is still required, and if the buyer does not close, there could be substantial damages—and maybe another suit.

18. I am getting married in two months. I have lousy credit, but my spouse-to-be has excellent credit. Can my future spouse buy a home individually?

Yes. However, he or she can only borrow based on one income and his or her credit standing. Together you might have far more income. Lenders, incidentally, will probably want both parties on the property title even if you are not on the mortgage. This removes a barrier should foreclosure be required.

19. What rules prohibit discrimination in real estate sales and financing?

The Fair Housing Act is the major legislation prohibiting discrimination in real estate. It provides that there can be no offer to sell, rent, buy, or exchange property that contains any preference, limitation, or discrimination based on race, color, religion, sex, national origin, handicap, or familial status, or an intention to make such preference, limitation, or discrimination.

This federal law applies to the sale and rental of housing, residential lots, advertising the sale or rental of housing, real estate financing, the provision of realty services, and the appraisal of real property. It also prohibits the practice of "blockbusting."

Other federal laws that offer protection include:

- The Civil Rights Act of 1866
- The Civil Rights Act of 1968
- The Americans with Disabilities Act
- The Equal Credit Opportunity Act

State and local laws may also identify additional discriminatory factors that are prohibited. Brokers, lenders, and attorneys can explain such matters in detail.

20. If the appraised value and the sale price of a home are different, what will lenders use when granting a mortgage?

Whatever is lower. Lenders want as little risk as possible, so they will look at both the sale price and the appraised value and then make a loan based on the lower of the two numbers.

21. What is "buyer's remorse?"

With some frequency it happens that buyers often have a sense of remorse after contracting to buy a home. Why?

A home is a very large purchase. Not just in terms of dollars, but also in the sense of status, ego, and commitment. And because it is such a transforming event, it naturally and reasonably causes some concern.

But not to worry. Buyer's remorse typically passes in quick order.

22. Can I buy a house after a bankruptcy?

Probably. There are two issues to consider.

First, lenders like to see two years of good credit after a bankruptcy is resolved. However, there are instances where lenders will finance with a year of good credit.

Second, lenders want to know why you have gone bankrupt. There is a substantial difference between a bankruptcy that is caused by reckless financial habits and simple financial disasters (a car wreck, medical costs, the plant closed after 30 years, the town was underwater for three weeks, etc.). In other words, not every bankruptcy is a by-product of financial negligence.

23. What is a "stigmatized" property?

There are properties that are in flawless physical condition but may nevertheless present unusual marketing issues. For instance, homes that have been the site of murders, suicides, or that are reportedly inhabited by ghosts are known as "stigmatized" properties. This is a home with a condition that is psychological in nature rather than a matter of bricks and mortar.

The subject of stigmatized houses is complex. While some people may want a house with a ghost, others do not. The subject gets tangled even further when one is asked whether murders and suicides at a property must be disclosed.

The rules on this matter vary by state. Some say a given condition must be disclosed, others say "no." Some say disclosure is not necessary after so many years, and some states say nothing one way or the other. For specifics, please speak with a broker or real estate attorney in your community.

24. What is the difference between a co-op and a condo?

In general terms: A co-op is a corporation that owns real estate. If you belong to a co-op, you own stock in the corporation and the exclusive right to a given unit. There is usually an underlying mortgage on the property and your co-op fee includes some or all mortgage payments as well as other costs.

With a condo, you own real estate and you have access to certain common facilities. The condo is typically responsible for exterior maintenance and you pay a monthly condo fee. You have your own title and mortgage, so mortgage costs are not part of the condo fee.

25. What are some of the basic questions to ask when looking at a co-op?

Co-op ownership raises a number of issues that should be of concern:

1. What is the value per unit of the underlying mortgage?
2. What is the voting system (one vote per unit or voting based on unit size)?
3. Is there a reserve fund for repairs? If so, is it adequate?
4. Are major repairs anticipated in the next two years? If so, how will they be funded?
5. Is the co-op now facing or likely to face a lawsuit for any reason? If yes, what are the possible damages?
6. What pricing trends are associated with the co-op? Are prices rising? Falling? Can you review all sales for the past year?
7. Is a property tax rise known or expected?

26. We are considering the purchase of a condo in a complex that has an interesting pet rule: You can only have a dog or cat that can be carried into the building. Is this fair?

The obvious intent is to limit larger dogs since domesticated cats can be readily carried by most adults. The real test here is the strength of the owner rather than the size of the animal.
Not all animals make good pets, regardless of size. Venomous creatures, wild animals, and endangered species are certainly inappropriate.

A more difficult question concerns larger dogs. There are noise and sanitation issues, and there are special questions regarding breeds with a history of attacks. It may well be that Rover is the best of his breed, but if Rover has a bad day and mauls a child the liability could be substantial.

The condo association, for the protection of unit owners, raises a valid issue. However, a better approach would be to speak with insurance carriers to determine how pet coverage is handled, exclude animals not covered, evolve a more precise pet standard, and make certain that owners understand both the condo policy and their personal liability.

27. What is a broker's "trust" account?

In terms of a real estate sales agreement, a "trust" account is typically an account operated by a real estate broker that is used to hold buyer deposits until closing.

Example: Buyer Smith makes an offer to purchase a home. With the offer is a $10,000 deposit. That deposit is held by Broker Smith in a trust account. The money in a broker's trust account is typically a credit to the buyer at closing. If the sale does not close, however, then several alternatives are possible:

First, buyer and seller may agree to return the trust money to the purchaser. Second, buyer and seller may agree to give the money to the seller to resolve claims that the buyer did not perform as agreed under the sales contract. Third, buyer and seller may dispute how the funds should be distributed. In this situation, the money is usually turned over to a court or, in at least one jurisdiction, the state real estate commission.

28. What is a lender's escrow account?

When homes are bought with 80% or more financing from a single lender, the lender generally requires the borrower to make monthly payments to a lender "escrow" (trust) account.
The purpose of the lender escrow account is to accumulate money to assure that the borrower's property taxes and property insurance are paid (and thus reduce the lender's risk).

Lenders typically collect 1/12th of the annual costs for property insurance and taxes each month. They are allowed to keep as much as one full year's worth of tax and insurance payments in the account, plus a two-month safety margin, plus $50. The only time the account is likely to have 12 monthly payments plus the two-month cushion is just before property taxes or insurance are due.

Lenders must account to borrowers annually with a statement showing how much is in the account, whether monthly payments will rise or fall in the coming year, and whether any surplus or shortage appears in the account. If the surplus is more than $50, the excess must be returned to the borrower. Note that some states require lenders to pay interest on escrow accounts, others do not.

29. How are escrow accounts used at closing?

It sometimes happens that not all agreed promises found in a sale agreement can be fulfilled by closing. For instance, if closing takes place in January in a cold climate it may not be possible to test the air conditioning system.

How does the buyer know the system works? It is best to wait until warmer weather to test the system. But what if something is wrong with the system? To resolve buyer concerns, an "escrow" account can be created at closing. In this situation, money from the seller is held in reserve to pay for needed repairs as defined in the escrow agreement. If repairs are not required, or if the cost is less than the amount of money set aside, the difference is returned to the sellers.

30. What is 3/2 financing?

There are a number of loan programs directed toward first-time buyers that allow the purchase of property with as little as 3% down.

The way they work is that a purchaser puts up 3% of the sale price and another party puts up 2%. Who puts up the additional 2%? Programs differ, but some choices include:

- A friend or relative providing a gift.
- A friend or relative providing a loan.
- An employer providing a loan.
- An employer proving a loan that does not have to be repaid if the individual stays with the company for a certain amount of time.
- A community group providing a loan or grant.
- A government agency providing a loan or grant.
- Amazingly enough, a lender who provides both 95% financing and a 2% loan.

For details, please contact local lenders and real estate brokers.

31. How can I buy real estate with my children using "shared equity?"

Shared equity is generally seen as a way that families can buy real estate together. The kids live on the property and get the benefits of property usage and ownership tax advantages while Mom and Dad get an investment write off equal to their proportional interest. (Shared equity arrangements, incidentally, can also be among friends, relatives, or business partners.)

Under a shared-equity arrangement, if you own half and the kids own half, you must pay half the mortgage, taxes etc. The kids must pay their half, plus they must pay a market-rate rent for your half of the property in order for you to have a deduction. Of course, once they have paid, you can also give them a gift equal to some portion, or maybe all, their rent.

You will need to work out an equity-sharing arrangement with the help of a local attorney and CPA. A broker can find an appropriate property. Both you and your children will need wills, living wills, and a proper equity-sharing agreement. You will need to understand what happens if your kids are laid off (you are responsible for the mortgage), or if you and your children become estranged. You will also have to consider the interests of any other children you may have.

32. How can our family buy real estate together?

There are a number of choices including: Equity-sharing deals. These have potential for everyone if a home in poor condition is purchased and the adult child will put in the sweat equity required to fix it up. Partnerships. Family partnerships are common but everyone has to understand their obligations.

A corporation could be formed, with shares for everyone. The problem here is selling shares in a small entity if someone wants out. All familial arrangements should be based on a written agreement developed by an attorney, wills and living wills for everyone, and advice from a tax professional for each party. Also, speak with lenders before making a final arrangement. Some approaches may be easier to finance than others.

33. We are buying a home and have a copy of the seller's disclosure form. Should we also get a home inspection?

Most states have a mandated seller disclosure form that must be used for most properties, but not all. This form provides an opportunity for the seller to answer certain questions regarding the property's condition. Just ask the broker or the owner for a copy.

But a seller disclosure form is not a substitute for an independent examination by a professional home inspector. A seller may well complete a form to the best of his or her ability, but without knowledge of home construction, that ability may be limited. And a state-written form may not ask the questions you want answered. For example, when was the owner last in the attic to check for leaks? When was the furnace last examined? Does the home have aluminum wiring?

34. What is a "CMA?"

When owners offer a home for sale, they logically want the best possible price and terms for their property. A "comparative market analysis" or "CMA" is an estimate of value prepared by a real estate broker or salesperson that shows recent past sales for like properties and suggests a possible asking price for the owner's property.

35. What is the difference between a "warranty" and an "inspection?"

A warranty and an inspection are different creations. An inspection shows the condition of a home at a particular time. A warranty provides compensation if an approved repair is required during the warranty period. Not all warranties are alike. Some cover repairs only above a certain minimum (that is reasonable). Some have defect lists, but the standards for each list vary (some lists are vastly more liberal than others are). Some warranty programs charge an inspection fee for each item.

36. What is a contract "contingency?"

A sale agreement between buyer and seller typically outlines a series of obligations for each party. Also, usually a sale agreement has one or more clauses that make the transaction dependent on certain events. Such contract language is a "contingency" and the agreement itself can be seen as a "contingent" arrangement.

For example, you will buy the Smith house if you can get a mortgage at not more than 8% and one point. If such financing is not available, if the contingency has not been met, then a contingency may provide that the deal will fall through and your deposit will be returned in full.

The words used in a sale agreement outline important rights and terms and should be written and reviewed with great care.

37. What stays with a home and what goes?

In general, items that are physically attached to and intended to be part of a home are expected to stay. Example, if there is a built-in dishwasher it should stay. If the sellers take it, there would be a large hole in the kitchen cabinets.

Items that stay are called "fixtures" but it is sometimes difficult to determine what is or is not a fixture. Moreover, one can "create" a fixture in a purchase offer by saying that as a condition of the deal, the backyard swing set (or whatever) will stay.

The best approach to fixtures is to list what stays in the purchase offer. For details, speak with a broker as appropriate.

38. What is a lease option?

It sometimes happens that a buyer does not want to purchase, or cannot purchase, immediately, and a seller does not want to sell, or cannot sell, immediately. In this situation, both parties may want a "lease option" arrangement.

In general, a lease option is an arrangement where a prospective buyer moves into a property as a tenant. The buyer has the right to buy the property for a specific price during the option period. The monthly rent is equal to the fair market rental rate plus an additional sum. The additional sum is credited to the buyer at closing, should the buyer exercise the option to purchase. If the buyer does not buy the property, then the additional monthly payments go to the owner.

Lease option properties can be located by real estate brokers. Lease options contracts should be reviewed by attorneys for each party to the transaction before signing. Also, before entering into a lease option arrangement, speak with lenders to review current financing requirements.

39. Can all the rent paid in a lease purchase be credited toward a down payment?

If the purchase is being financing by a commercial lender, the lender will want to know the fair market rental for the property. Anything above the fair market rental can be considered a credit toward the purchase, anything below a fair market rental represents a discounted sale price. A lower price, in turn, means the lender will not provide as much financing as buyer and seller may have wanted. Speak with lenders for details.

40. What is a seller "take-back" or "carry-back?"

A seller "take-back" works like this. A home is worth $100,000 and has an assumable $60,000 mortgage. You assume the mortgage. Instead of taking $40,000 in cash from YOU, the seller instead takes back a note, secured by the property. For example, the seller might take-back a note for $30,000 if you will put up $10,000 in cash.

A seller take-back is just like a loan from any lender. It must be repaid according to the terms and conditions outlined in the note. If not repaid, the property can be foreclosed. The rules that apply generally to mortgages may not apply to seller take-backs. For example, some attorneys argue that a seller take-back is not subject to state usury rules (interest rate caps) because a seller take-back is NOT a loan, no money changed hands.

41. Is an owner "take-back" a good way to finance a home?

Such financing is fine as long as it meets the usual standards you would expect with a loan. These would include a competitive interest rate, no short-term balloon note, the right to prepay in whole or in part without penalty, or a deed of trust rather than a "mortgage," so there is a trustee to accept a pay-off in case the owner is not available.

But since a commercial lender is not involved, you will want many of the protections lenders require such as a title search, title insurance, termite inspection, survey, a proper deed, etc.

42. Does it make sense to buy real estate for cash?

Probably the best answer works like this: Is there a better place to put your money? Is there an alternative investment that will produce like returns with equal risk? Is it simply more comfortable as a matter of personal preference to pay cash? The decision to pay cash or not pay

cash includes both economic considerations and personal choices. Many people simply prefer a home that is free and clear of all debt. Several advantages can be obtained by paying all cash. There is no mortgage application and no need for private mortgage insurance. There is also no mortgage interest to write off.

However, if you elect to pay all cash, be sure to insist on the protections that a lender would want a title inspection, title insurance, survey, termite inspection, appraisal, etc.

It may be worthwhile to sit down with a tax professional or a fee-only financial planner to review the consequences of paying all cash or financing.

43. What is a "cash-back" transaction?

It is sometimes claimed that it is possible to buy a home and receive both the house a substantial amount of cash at closing.

For example, a home will be "sold" for $100,000. The deal will be financing with a 95% loan-to-value mortgage. However, the seller will provide a $15,000 certificate of deposit to the buyer at closing.

On the surface, we have a deal with a $100,000 purchase price, $5,000 down, $95,000 in financing, and a $15,000 TD. Alas, $100,000 was never paid for the house. There was a "sales price" of $100,000, but then as part of the deal, the seller provided a $15,000 rebate in the form of a CD. Since a CD is a certificate of deposit that presumably is worth $15,000 in this example, this property was sold at discount - the real price is $85,000. This is a classic "cash plus" deal where the amount financed is greater than the debt to the owner.

The surplus would be returned to the buyer at closing, if there was a closing. Lenders will decline this transaction because the amount of financing sought is greater than the discounted value of the property. Even if this property appraises at $100,000, lenders will value the deal at the appraised value or the true sale price ($85,000), whatever is less. Worse, if the lender is not told, in writing, in the loan application and in the sale agreement about the CD, there may well be grounds to consider charges involving fraud.

Bottom line: Should someone propose a cash-plus deal, sign nothing until you have spoken with an attorney.

44. Why does closing cost so much?

State and local governments have discovered that real estate transfers are wondrous opportunities to tax with little political responsibility. If a politician says that taxes should be raised, the individual may well be out of work when elections next roll around. But if real estate transfer taxes are raised, the game changes because many of those impacted by the higher tax will move elsewhere, and thus they cannot vote against the politician.

The result is that transfer taxes and "stamps" often amount to thousands of dollars per transaction, income that is enormously profitable to states and local communities.

45. Must I physically attend closing?

Check with your closing provider, but in most jurisdictions, if not all, the answer seems to be "no."

The purpose of closing is to assure that all requirements of the sale agreement have been met. The closing papers need to be signed by all parties to the transaction, and often notarized or witnessed.

However, the signing process need not be done at the closing table. Documents can be reviewed and signed away from the closing table and sent to the closing provider by overnight delivery.

46. What is a "walk-through?"

When you purchase an existing home, you enter into a sale agreement at one point but only close on the sale some weeks later. To assure that the property is in substantially the same condition as when the sale agreement was signed, a buyer will "walk through" the property just before closing.

If you are a buyer, be sure to allocate enough time for a thorough walk-through.
In the case of a new home, the situation is a little different. Typically, there is a walk-through with the builder's representative. Items not completed, or not properly completed, are entered onto a "punch list." The punch list items are then detailed at closing and the builder is obligated to make required repairs and completions.

When going through a new home, buyers should make their own punch list and compare it with the builder's representative to assure that nothing is missed by accident.

47. Must real estate brokers disclose the fact that they are licensed when they buy or sell for themselves?

All states license the practice of real estate brokerage. A common provision of such laws is that real estate licensees must disclose their license status when they buy or sell a property for themselves, for a spouse, or for an immediate member of the family such as a parent or child.

The reasoning behind such disclosure rules is that brokers and salespeople, by virtue of the fact that they are licensed, are presumed to have a marketplace advantage over those who have not studied real estate, passed various tests, and obtained a license. To have a fair playing field, brokers and salespeople must disclose the fact that they are licensed so that consumers know about such training and experience. Speak with brokers regarding specific requirements in your state.

48. Can a real estate broker assist me in the purchase or sale of a business?

In some states there traditionally were "business chance" brokers, individuals specifically licensed to buy and sell businesses for another and for a fee. Such licenses in many states have been combined with real estate licenses, meaning that a real estate broker is allowed to buy and sell a business for another. Please speak with local brokers for specifics related to your state.

49. Do people really make millions of dollars buying with no money down?

It's a big country and you can be sure that each year someone will win the lottery, someone will be hit by lightening, and someone will buy a home at a steep discount, with predatory terms, and no money down. The odds in every case are grim.

The essential issue is NOT buying property with no money down, it is buying property that can produce a positive cash flow and/or be sold at a profit. Unless one or both of these conditions can be met, then the economics of buying a home with no-money-down are unlikely to make sense.

Those buying under the VA program can buy with no money down, and residential financing with 5% down or less is widely available, especially for first-time homebuyers. However, all of these programs require appropriate credit and income.

SO WHAT'S NEXT?...

We would love to help you navigate the purchase of your next home. Call us and let us help you with one of the most important decisions you will make. We will help simplify and distress the home buying process for you. Call (615) 673-2998