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6th Edition

Home Buying Kit

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Learn to:

- Negotiate your best deal and find your best mortgage
- Improve your credit score
- Make sense of changing lending standards



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Eric Tyson, MBA

Financial counselor and bestselling author

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Residential real estate counselor



Home Buying Kit For Dummies,® 6th Edition

by Eric Tyson and Ray Brown

Cheat Sheet

Top 20 Hints for Home Buyers

1. Buy a home that comfortably allows you to accomplish your other financial goals. Understand how the proposed home purchase fits into and affects your existing financial situation and goals, especially saving for retirement.
2. Get your personal finances in order before you buy. You should make your saving, investment, and insurance plans before you buy.
3. Mortgage lenders and real estate agents can't tell you how much you can afford to borrow. They can only tell you the maximum that you're eligible to borrow.
4. The best time to think about selling your house is before you buy it. Be sure that the home you buy has features other buyers will find desirable, or you won't be able to get a good price when you sell it.
5. Real estate is a good long-term investment. However, home values go through up periods as well as down periods. If you're a homeowner during most of your adult life, your home should enjoy a healthy appreciation of value.
6. Consider renting if you think you'll soon need to move. Given all the costs associated with buying and then selling a home, if you don't expect to hold on to your home for at least three (and preferably five) years, you could very well lose money.
7. Have the courage to be a contrarian. The best time to buy is usually at the bottom of a real estate cycle when fewer people think it's a good time to buy. Compare the monthly costs of renting a home to buying it to see whether buying offers a good value.
8. You can easily save thousands of dollars by shopping around for a good mortgage. Money is a commodity, just like toasters and toilet paper.
9. Choose a mortgage that fits your needs and ability to accept risk. Don't take an adjustable-rate mortgage unless you can afford the maximum possible monthly payment and the risk of fluctuating payments.
10. What you don't know is usually what gets you into trouble. Real estate is a team sport. Put the right players on your team and you greatly reduce the likelihood of problems with your purchase.
11. Invest the time to find the best possible real estate agent that you can. A patient, knowledgeable agent can add value to your home-buying transaction. A mediocre or lousy agent can be a liability.

Mortgage Payment Calculator*

To calculate your monthly mortgage payment, simply multiply the relevant number from the table below by the size of your mortgage expressed in (divided by) thousands of dollars. For example, on a 30-year mortgage of \$125,000 at 7¼ percent, you multiply 125 by 7.17 (from the table) to come up with an \$896.25 monthly payment.

Interest Rate (%)	Term of Mortgage	
	15 years	30 years
4	7.40	4.77
4¼	7.46	4.85
4½	7.52	4.92
4¾	7.59	4.99
5	7.65	5.07
5¼	7.71	5.14
5½	7.78	5.22
5¾	7.84	5.29
6	7.91	5.37
6¼	7.98	5.45
6½	8.04	5.53
6¾	8.11	5.60
7	8.18	5.68
7¼	8.24	5.76
7½	8.31	5.84
7¾	8.38	5.92
8	8.44	6.00
8¼	8.51	6.08
8½	8.58	6.16
8¾	8.65	6.24
9	8.72	6.33
9¼	8.78	6.41
9½	8.85	6.49
9¾	8.92	6.57
10	8.99	6.66
10¼	9.06	6.74
10½	9.13	6.83
10¾	9.20	6.91
11	9.28	7.00



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Mortgage Payment Calculator* (continued)

Interest Rate (%)	Term of Mortgage	
	15 years	30 years
7%	9.35	7.08
7¼	9.42	7.17
7½	9.49	7.26
8	9.56	7.34
8¼	9.63	7.43
8½	9.71	7.52
8¾	9.78	7.61
9	9.85	7.69
9¼	9.93	7.78
9½	10.00	7.87
9¾	10.07	7.96
10	10.15	8.05
10¼	10.22	8.14
10½	10.30	8.23
10¾	10.37	8.32
11	10.45	8.41
11¼	10.52	8.50
11½	10.60	8.60
11¾	10.67	8.69
12	10.75	8.78
12¼	10.83	8.87
12½	10.90	8.97
12¾	10.98	9.06
13	11.06	9.15
13¼	11.14	9.25
13½	11.21	9.34
13¾	11.29	9.43
14	11.37	9.53
14¼	11.53	9.72
14½	11.69	9.91
14¾	11.85	10.10
15	12.01	10.29

*Warning: Mortgage payments are only a portion of the costs of owning a home. See Chapters 2 and 3 to figure your total costs and fit them into your personal finances.

Top 20 (continued)

- Remember that real estate agents, mortgage brokers, and other players only get paid if you buy, and they generally get paid more the more you spend on a home. To protect yourself against these conflicts of interest, get your financial house in order before you start working with these players.
- Buying a home is an emotional experience for most people. The better job you do of controlling your emotions, the more likely you are to control the transaction and get a good deal.
- Beware of fake sellers trying to peddle overpriced houses. Learn how to spot counterfeit sellers before you waste your precious time and money on them.
- “What’s it worth?” is the most important question to answer when buying a home. Examine sales of comparable homes (a good agent can assist you) to answer this question.
- There are no absolutes in real estate negotiation. Smart buyers realize that there are times to make a low-ball offer and times to make your first offer your best offer. And remember that everything is negotiable.
- If the deal you’re getting on a home, mortgage, or any other aspect of a home purchase seems too good to be true, it probably is. Find out why the home or mortgage is so cheap or suffer the consequences later.
- Never buy a pig in a poke. Don’t try to save money by skipping inspections. Have the home thoroughly inspected before you buy it. If in doubt, reinspect.
- Buy the most comprehensive homeowners insurance policy you can. Make sure that you have coverage for catastrophic risks, such as earthquakes or floods, that may occur in your area.
- Don’t let unexpected closing costs sabotage you. Ensure that you have enough cash to buy the home by estimating in advance all the costs you must pay at the time of closing, including moving expenses, insurance premiums, loan fees, and property taxes.

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Praise for Previous Editions of Home Buying For Dummies

“It is absolutely practical. They cover the basics in straightforward language and go into enough detail to make them the only books you’ll need.”

— Eric Antonow, president and CEO, Katabat Corp.

“As a first-time home buyer, I found this book to be a quick read and immensely helpful in knowing what to ask my agent, what to look for on walk-throughs, what to expect in terms of offers and counteroffers, as well as the entire timeline and process from open house to moving in. This book really is invaluable to anyone purchasing a home, even if you’re not a first-time home buyer.”

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“Because I bought this book, I was able to carry on intelligent conversations with my agent and lender when I recently purchased a home. Even better, I felt prepared for those conversations and much more in control of the situation than I would have had I not read this book. Thanks to the authors for doing such a great job!”

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Here's what critics have said about Eric Tyson and his previous national bestselling personal finance guides:

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Introduction

Welcome to *Home Buying Kit For Dummies*, 6th Edition!

For about the cost of a couple of movie tickets, you can quickly and easily discover how to save thousands — perhaps even tens of thousands — of dollars the next time you buy a home.

How can we make such a claim? Simple. Each of us has spent decades personally advising thousands of people like you about home purchases and other important financial decisions. We've seen how ignorance of basic concepts and practices translates into money-draining mistakes. And we know that many of these mistakes are both needless and avoidable.



No one is born knowing how to buy a home. Everyone who'd like to buy a home must learn how to do it. Unfortunately, too many people get a crash course in the school of hard knocks — and learn by making costly mistakes at their own expense.

We know you're not a dummy. You've already demonstrated an interest in discovering more about home buying by selecting this book, which can help you make smart moves and avoid financial land mines.

In the event that you're still wondering whether to buy this book, consider that buying a home may well be the largest purchase that you ever make. Buying a home can send shock waves through your personal finances and may even cause a sleepless night or two. Purchasing a home is a major financial step and a life event for most people. It certainly was for us when we bought our first homes. You owe it to yourself to do things right.

About This Book: The Eric Tyson/ Ray Brown Difference

We know that many home buying books are competing for your attention. Here are several other compelling reasons why this is the best book for you:

- ✓ **It's in plain English.** Because we work with real people and answer real questions, our information is current, and we have a great deal of experience in explaining things. This experience can put you firmly in control of the home buying process (rather than having it control you).

- ✔ **It's objective.** We're not trying to sell you an expensive newsletter or some real estate product you don't need. Our goal is to make you as knowledgeable as possible before you purchase a home. We even explain why you may *not* want to buy a home. We're not here to be real estate cheerleaders.
- ✔ **It's holistic.** When you purchase a home, that purchase affects your ability to save money and accomplish other important financial goals. We help you understand how best to fit your home acquisition into the rest of your personal-finance plan.
- ✔ **It's a reference.** You can read this book from cover to cover if you want. However, we know you're busy and you likely don't desire to become a real estate expert, so each portion of the book stands on its own. You can read it piecemeal to address your specific questions and immediate concerns.

Icons Used in This Book

Sprinkled throughout this book are cute little icons to help reinforce and draw attention to key points or to flag stuff that you can skip.



This bull's-eye notes key strategies that can improve your real estate deal and, in some cases, save you lots of moola. Think of these as helpful little paternalistic hints we would whisper in your ear if we were close enough to do so!



Numerous land mines await novice as well as experienced home buyers. This explosive symbol marks those mines, and then we tell you how to sidestep them.



Occasionally, we suggest that you do more research or homework. Don't worry: We tell you exactly what you need to do.



Unfortunately, as is the case in all parts of the business world, some people and companies are more interested in short-term profits than in meeting your needs and concerns. We warn you how, when, and where you may be fleeced, and where appropriate, we show you how to de-fleece yourself!



"If I've told you once, I've told you a thousand times. . . ." Remember good old Mom and Dad? From time to time, we tell you something quite important and perhaps repeat ourselves. Just so you don't forget the point, this icon serves as a little nag to bring back those childhood memories.



Some of you are curious and have time to spare. Others are busy and just want to know the essentials. This geeky icon points out tidbits and information that you don't really have to know, but understanding this stuff can make you more self-confident and proud!



Want to calculate your monthly expenses? Or have a handy-dandy list available when you interview Realtors and home inspectors? Wanna see what your bank might include on a mortgage application? These along with lots of other important stuff can be found online at www.dummies.com/go/homebuyingkit6e.

Beyond the Book

In addition to the material in the print or e-book you're reading right now, this product also comes with some access-anywhere goodies on the web. Check out the free Cheat Sheet at www.dummies.com/cheatsheet/homebuyingkit for 20 home buying tips and a monthly mortgage payment calculator.

We've also included some additional information online at www.dummies.com/extras/homebuyingkit. These Extras articles address the difference between short-term and long-term interest rates when it comes to choosing a mortgage; why you should save receipts for major home improvements; and common misperceptions when it comes to investing in real estate.

Finally, go online to www.dummies.com/go/homebuyingkit6e to access the "kit" part of this book. You'll find a variety of useful forms, including many of the lists and applications that we show in the book. You can print out the application forms and fill them in, just to ensure you have all the information you need. And you can also print out the lists of questions for potential Realtors and property inspectors so you're prepared when interviewing them.

Here's a list of what you'll find at www.dummies.com/go/homebuyingkit6e:

Table 1-1	Figuring future rent
Table 2-1	Your spending, now and after purchasing a home
Table 3-1	Monthly mortgage payment calculator
Chapter 3	Estimated homeownership expenses
Chapter 3	1040 Schedule A
Chapter 3	Closing costs checklist
Chapter 7	A list of the documents that mortgage lenders ask you to fork over

- Chapter 7 Request for Copy of Tax Return (Form 4506)
- Chapter 7 Tax Information Authorization (Form 8821)
- Chapter 7 Release of Authorization (Figure 7-3) grants permission to your mortgage lender or broker to verify and document the financial facts of your life
- Chapter 7 Good faith estimate form
- Chapter 7 The Uniform Residential Loan Application, Parts I through X
- Chapter 7 Right to receive appraisal form
- Chapter 9 Agent activity list
- Chapter 9 Agent references
- Chapter 9 Interviewing agents
- Chapter 12 Sample counteroffer form
- Chapter 13 Interviewing property inspectors
- Chapter 14 Settlement Statement (HUD-1 Form)
- Appendix A California Association of Realtors' Purchase Contract
- Appendix B Short-Sale Addendum
- Appendix B Short-Sale Addendum and Advisory
- Appendix C Sample Inspection Report
- Appendix C Buyer's Inspection Advisory

Where to Go from Here

Odds are you're not quite ready to bolt over to the nearest bank and take out a mortgage — and we don't suggest that you blindly call the first Realtor you find online. It's up to you where you go from here, but if you're just beginning to think about buying your first home, we recommend that you read this book straight through, cover to cover, to maximize your home buying savvy. But the A-to-Z approach isn't necessary — if you feel pretty confident in your knowledge of certain areas, pick other ones that you're most interested in by either skimming this book's table of contents or by relying on the well-crafted index at the back of the book.

Part I

Getting Started with Buying a Home

getting started
with

buying
a
home



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In this part . . .

- ✔ Compare the pros and cons as well as the economics of renting your home versus owning your home.
- ✔ Get your personal finances in order before buying.
- ✔ Determine how much you can afford to spend on a home.
- ✔ Understand the drivers of home prices in your local market.

Chapter 1

Deciding Whether to Buy

In This Chapter

- ▶ Considering the pros and cons of owning and renting
 - ▶ Avoiding common mistakes when deciding to buy or rent
-

Every month, week, and day, we buy things large and small: lunch, a new pair of shoes, and every now and then, a car.

Most people buy things without doing much comparison shopping, but instead draw upon their past experiences. When the counter help at the nearby coffeehouse is friendly and you like the brew, you go back for more.

Sometimes purchases lead you by association to related purchases. You get a pet cat or dog, for instance, and buying a collar and pet toys may naturally follow. By the same token, you buy a home, and before long you have a new television and gardening gloves.

You end up being really happy with some items you purchase. Others fall short of your expectations . . . or worse. When the items in question don't cost you much, it's no big deal. Perhaps you return them or simply don't buy more in the future. But when it comes to buying a home, that kind of sloppy shopping can lead to financial and emotional disaster.

If you're not willing to invest time, and if you don't work with and heed the advice of the best people, you could end up overpaying for a home you hate. Our goals in this book are simple: to ensure that you're happy with the home you buy, that you get the best deal you can, and that owning the home helps you accomplish your financial goals.

Weighing the Advantages of Owning versus Renting

Nearly everyone seems to have an opinion about buying a home. People in the real estate business — including agents, lenders, property inspectors, and other related people — endorse homeownership. Of course, why wouldn't they? Their livelihoods depend upon it! Therein lies one fundamental problem of nearly all home buying books written by people who have a vested interest in convincing their readers to buy a home.



Homeownership isn't for everyone. One of our objectives in this chapter is to help you determine whether home buying is right for you.

Consider the case of Peter, who thought that owning a home was the best financial move he could make. What with tax write-offs and living in a place while it made money for him, he thought how could he lose? Peter envied his colleagues at work who'd seemingly made piles of money with property they bought years ago. Peter was a busy man and didn't have time to research other ways to invest his money.

Unfortunately, Peter bought a place that stretched his budget and required lots of attention and maintenance. Adding insult to injury, Peter went to graduate school clear across the country (something he knew he was likely to do at the time he bought) three years after he purchased. During these three years of his ownership, home prices dropped 10 percent in Peter's neighborhood. So after paying the expenses of sale and closing costs, Peter ended up losing his entire down payment when he sold.

Conversely, some people who continue to rent should buy. In her 20s, Melody didn't want to buy a home, because she didn't like the idea of settling down. Her monthly rent seemed so cheap compared with the sticker prices on homes for sale.

As it always does, time passed. Melody's 20s turned into 30s, which melted into 40s and then 50s, and she was still renting. Her rent skyrocketed to eight times what it was when she first started renting — that insignificant \$150 monthly rent was now over \$1,200 per month. Even with the late 2000s real estate price declines, home prices really seemed out of sight compared with three decades earlier. She fearfully looked ahead to escalating rental rates in the decades when she hoped to be retired.

Ownership advantages

Most people should eventually buy homes, but not everyone and not at every point in their lives. To decide whether now's the time for you to buy, consider the advantages of buying and whether they apply to you.

Owning should be less expensive than renting

You probably didn't appreciate it growing up, but in addition to the diaper changes, patience during potty training, help with homework, bandaging bruised knees, and countless meals, your folks made sure that you had a roof over your head. Most of us take shelter for granted, unless we don't have it or are confronted for the first time with paying for it ourselves.

Remember your first apartment when you graduated from college or when your folks finally booted you out? That place probably made you appreciate the good deal you had before — even those cramped college dormitories may have seemed more attractive!

But even if you pay several hundred to a thousand dollars or more per month in rent, that expense may not seem so steep if you happen to peek at a home for sale. In most parts of the U.S., we're talking about a big number — \$150,000, \$225,000, \$350,000, or more for the sticker price. (Of course, if you're a medical doctor, lawyer, management consultant, or investment banker, you probably think that you can't find a habitable place to live for less than a half-million dollars, especially if you live in costly places such as New York City, Boston, Los Angeles, or San Francisco.)



Here's a guideline that may change the way you view your seemingly cheap monthly rent. To figure out the price of a home you could buy for approximately the same monthly cost as your current rent, simply do the following calculation:

Take your monthly rent and multiply by 200, and you come up with the purchase price of a home.

$$\text{\$ } \underline{\hspace{2cm}} \text{ per month} \times 200 = \text{\$ } \underline{\hspace{2cm}}$$

Example: $\text{\$ } 1,000 \times 200 = \text{\$ } 200,000$

So in the preceding example, if you were paying rent of \$1,000 per month, you would pay approximately the same amount per month to own a \$200,000 home (factoring in tax savings). Now your monthly rent doesn't sound quite

so cheap compared with the cost of buying a home, does it? (Note that in Chapter 3 we show you how to accurately calculate the total costs of owning a home.)



Even more important than the cost *today* of buying versus renting is the cost in the *future*. As a renter, your rent is fully exposed to increases in the cost of living, also known as *inflation*. A reasonable expectation for annual increases in your rent is 4 percent per year. Figure 1-1 shows what happens to a \$1,000 monthly rent at just 4 percent annual inflation.

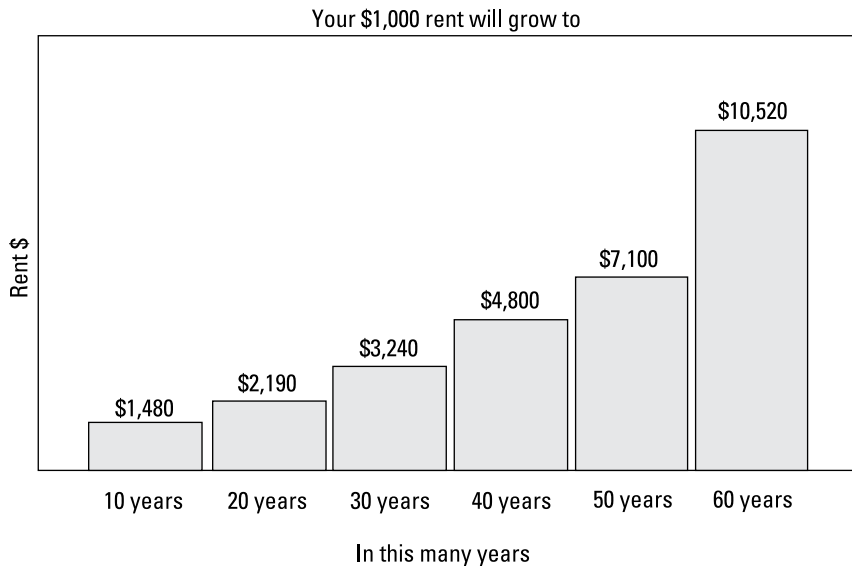


Figure 1-1:
The sky-rocketing cost of renting.

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When you're in your 20s or 30s, you may not be thinking or caring about your golden years, but look what happens to your rent over the decades ahead with just modest inflation! Then remember that paying \$1,000 rent per month now is the equivalent of buying a home for \$200,000. Well, in 40 years, with 4 percent inflation per year, your \$1,000-per-month rent will balloon to \$4,800 per month. That's like buying a house for \$960,000!



In our example, we picked \$1,000 for rent to show you what happens to that rent with a modest 4 percent annual rate of inflation. To see what may happen to your current rent at that rate of inflation (as well as at a slightly higher one), simply complete Table 1-1. (You can also access Table 1-1 online at www.dummies.com/go/homebuyingkit6e.)