

# Questions & Answers

## Should I Stay With A Professional?

Not all that many decades ago, people went to a barber when they needed to have a tooth removed. This wasn't the best thing you could do for your mouth, but there weren't many alternatives.

Fortunately, we can go to a dental specialist today.

And just as a dental specialist can prove invaluable to your teeth and your threshold of pain, a real estate specialist - someone whose one and only occupation is helping clients with real estate matters - can prove invaluable to your wallet and peace of mind.

For one thing, real estate law is constantly changing. And it's nearly a full-time job staying up with changes in legal, taxation, and mortgage matters, so that a real estate professional can provide you the best possible guidance in any transaction, steering you clear of the many minefields that could turn a transaction into a court contest or explode a deal with unexpected expenses.

For another, many local markets are constantly changing, and it requires full-time attention so that the real estate professional is always aware of changing values, trends in population and commercial growth and important zoning issues.

## Fixer-Upper: Two Magic Words

For many homebuyers - whether they intend to occupy or are seeking a good investment - the magic words in a real estate ad are "fixer-upper".

The idea, of course, is that you can buy a home at a bargain price, discounted for all the work that needs to be done to it to bring it up to par with other homes in its neighborhood. Ideally, most of that needed work will be cosmetic and require more elbow grease than money.

Obviously, it takes a lot of work to find a viable "fixer-upper". You need to research the value and upkeep of other homes in its neighborhood...find out how much rent can be charged if you intend to rent the home...examine very carefully the improvements that will need to be made, and cost the work out very realistically, perhaps calling in a professional home inspector. And you need to make sure the home will allow the best available options.

It isn't easy...but a "fixer-upper" can be extremely profitable

## Should I Landscaping A New Home?

Problem: Tom and Jerry have bought a brand new home and are at loggerheads over the question of landscaping. Overwhelmed by the probable expense, Tom is in favor of hiring local high school kids to throw together some grass, trees and flowers. Jerry, however, thinks it would be a good investment to pay the price and have it done right the first time. Who is right?

Answer: Generally speaking, Jerry's thinking makes better sense - so long as they plan on staying in this home more than a few months. Landscaping is a science. Knowing what plants will thrive best in your soil and your climate, knowing how to engineer a watering system that will keep plants healthy, knowing growth patterns, and knowing how to do it all artistically - all of this requires experience and expertise. Better to call on it from the beginning, rather than calling on it after your cut-rate landscaping dies.

Solution: Plan the landscaping and get cost estimates before you buy a new home. Make sure you compare the resulting cost of the home with that of comparable resale homes. A brand new bargain home can lose its luster when you start adding landscaping and other expenses.

Handled with wisdom, your investment in landscaping can pay you grand dividends in "pride of ownership" and equity enhancement.

### **Can I Take My Fixtures?**

Problem: Tom and Jerry have sold their home. Prior to close of escrow, they carefully remove the brass and crystal chandelier from the entry hall - it's been in the family for generations - and replace it with a serviceable chandelier from a local hardware store. They did this without notifying the buyers, assuming everyone would understand ... right?

Answer: Wrong. Anything affixed to the home is a fixture. So is anything custom-designed for the home - like a special fireplace grate. And fixtures stay with the home unless other arrangements are made with the buyers. What Tom and Jerry are unwittingly doing, therefore, is stealing physical property from the buyers of their home.

Solution: If, in negotiating the price and other details of the sale of their home, the matter of the chandelier had been raised - better yet, if it had been raised before an offer was even written on the property - it would have been possible to get in writing the fact that Tom and Jerry could take their prized chandelier with them. Real estate professionals deal with problems like this every day; the most expert among them would be certain that this problem was solved before it became a real problem

### **Should You Landscape Before You Sell?**

Problem: Tom and Jerry have lived in their home for eight years and are planning on selling it. The landscaping is looking a little rough, they are aware of the importance of "curb appeal" in selling their home. Tom, however, wants to spend the least possible amount on sprucing up the yard. But Jerry thinks a big investment in landscaping will bring big returns in the selling price of the home. Who is right?

Answer: Probably Tom (though it will depend on the nature of the neighborhood and just how deteriorated the landscaping has become). Studies show that the expense of extensive landscaping just prior to the sale of a home - particularly the addition of such items as a gazebo or hot tub - is rarely recaptured in the selling price, much less exceeded. Instead, sellers are wisest to simply add brightly colored flowers to their flower beds, make sure the lawn is green and trimmed, and paint any part of the home's facade that needs painting.

Solution: Experienced real estate professionals can offer money-saving advice as you take the preparatory steps before putting your home on the market.

### **What Do Buyers Want Most?**

Privacy. According to a recent survey by Fulton Research Inc. and Builder magazine, that's the single most important quality home buyers look for. Quality number two: a private yard.

The survey also found that more than 75 percent of all home buyers today are people who have already owned a home and are now moving to a larger or more expensive home. This also indicates that first time buyers might not be quite as interested in privacy as these "mover-uppers".

Most desirable interior features? Number one on the list was deadbolt locks. Also high on the list were high-grade carpeting, hardwood floors, bay windows and French doors, built-in shelving, fireplaces, ample bathroom storage, double bowl sinks, and natural lighting.

How can this help the home seller? By getting a sense of what's on the mind of home buyers, the seller can enhance his or her home in ways that make it more desirable. The placement of trees or shrubs outside the window can add to the sense of privacy, as can attractive fences. Large, carefully placed mirrors can add to the impression of spaciousness and natural lighting by "bringing the outdoors inside".

### **The Easiest Way to Sell Your Home - Part 1**

What could be easier than selling your own home? Put an ad in the paper, put up a sign, fill out a few forms and --voila! Well, in a recent survey the National Association of Realtors indicated that 82% of all home sellers call on the assistance of a real estate agent. And of the 18% who sold it themselves, three quarters of them said they would never try to do it again.

What's so tough about selling your own home? To start with, the best way to market your home would be to advertise it in publications, distribute flyers about it, have a group of people waiting to answer telephone queries about the home and enlist a network of professionals who deal every day with home buyers. Only real estate agents and their companies and multiple listing board members can do that; you can't do it alone.

Obviously part of the safety in the sale of a home involves the avoidance of legal or financial pitfalls. Another part is knowing that someone is handling everything that may arise, someone who is available every day and who has a dedicated back-up crew at the real estate office.

### **The Easiest Way To Sell Your Home - Part 2**

Well, in addition to the tremendous effort required to market your home professionally and the legal or financial pitfalls to be avoided, there's also the handicap that comes with not having broad expertise in home selling.

Do you know the right price for your home - high enough that you'd be most likely to receive the most for it, but not so high that buyers fail to take you seriously as a seller? Real estate professionals do.

Did you know that in many states you're now required by law to submit a written survey of the condition of your home, naming all improvements and stating whether or not they're up to code, to the buyer before escrow closes? Did you know that your sale has to be reported in a special manner to the IRS?

Selling a home is much more complex today than it was just a decade ago. That is why it's more important than ever to get the best possible professional assistance.

### **The Do It Yourself Mortgage**

Many clients have said they want, but cannot find, a 15-year mortgage - one that pays off in half the time of the standard mortgage and thus requires vastly less interest over the life of the loan.

For many people, a "do-it-yourself" 15-year mortgage will work even better than the kind offered by lenders. So how do you create a do-it-yourself mortgage? It's very simple.

Take out a standard 30-year fixed-rate mortgage, making certain that the lender will allow you to make larger monthly payments than the mortgage requires. Then figure a 15-year amortization schedule for the loan amount. Every month, you will make payments based on the 15-year schedule, noting on your payment coupon how much of the payment goes to principal and how much to interest. (A variation on this is simply to make the payment as per the 30-year schedule, then add a set amount to be allocated to principal reduction of your loan.)

The advantage of this is that, should you need to revert to a lower payment, your regular 30-year schedule allows you to do that.

### **Can I Deduct My Home Office?**

There's a place in your home where you regularly work. (You own your home.) You can take deductions on your income tax for a portion of your mortgage, your utility bills and your insurance, plus depreciation, right?

Only if your home office use coincides with income tax code rules.

Specifically, you must use the space in your home for business and for no other purpose. It doesn't have to be a separate room, but it has to be an identifiable area. If you also have office space for that business elsewhere - and thus, you're not using the home office "for the convenience of your employer" - it won't qualify.

It will qualify, though, if it's a space you're using for a second job. Suppose you're moonlighting as an herbalist or investment counselor. A space in your home can be used to meet clients, to keep supplies and records, etc. The crucial rule here, though, is that you can deduct no more than the amount of gross income from that business, less direct business expenses (other than office-at-home expenses). So you have to make some money at your moonlighting to take office-at-home deductions!

## **What Is "Reasonable"?**

Let's suppose you find these words on a contract to purchase your home: "Buyer to obtain necessary financing within a reasonable period of time." What exactly does "reasonable" mean? And if it's "reasonable" to the goose, does that mean it's "reasonable" to the gander, too?

Remarkably, this rather nebulous word finds its way into all manner of legal contracts. When renters move on, it is generally assumed contractually that the home they leave behind will have endured "reasonable" or "normal" wear and tear. And phrases like "buyer will make a reasonable effort to procure..." often fill the pages of contracts.

Always remember this about a written contract. Everything must be translatable into specifics. If someone has a "reasonable" period of time to do something - and it drags on and on, costing the other party to the contract money as time goes by - how would a court determine that the matter had dragged on long beyond what's "reasonable"? For many elements of a contract, "reasonable" periods of time have been established in court cases. For many other elements of a contract, the word "reasonable" is virtually meaningless. Be certain you have experienced assistance when drawing up real estate contracts!

## **What Is "Prepayment Privilege"?**

Someone is buying your home, taking out a new loan (and paying off your old one), and escrow is about to close. At the last minute, you find out that your lender is going to charge you a large fee for the privilege of paying off your mortgage. Is that legal?

If the original paperwork for your mortgage (your "Note" and its riders) has a "prepayment privilege" or "prepayment penalty" clause, the lender's charge is indeed perfectly legal.

The standard charge for paying off your mortgage before its 30-year term (or 15-year term, or whatever) is complete is 6 months' worth of interest on 80% of the existing loan balance, prepayment of 20% of the loan balance being usually allowed with no charge. On a 9% mortgage with a balance of \$120,000, that could add up to over \$4,000.

Not all mortgages have prepayment clauses, many allow the borrower to prepay (that is, to pay off) the balance of the mortgage at any time with no added cost. As you can see, it's very important to check for this clause when you choose a mortgage in the first place, because it can add greatly to the potential overall cost of the home loan

## **The "Contingent" Sale**

Most purchase contracts are filled with "contingency" clauses, but the word "contingency" usually brings to our minds the seller who receives an offer conditioned on the buyer's ability to sell his or her own house within a specified period of time. The curious situation in which the seller substitutes the gamble of whether or not someone else's house will sell for the attempt to sell his or her own home, over which he has some control.

There are several ways that such an offer can be approached. You can do a lot of research on the buyer's house - how salable it is, whether or not it's being marketed well - and the house's location

and how quickly homes are selling in that area. But you've already done that work on your own home, and you're being asked here to put all your eggs in someone else's basket.

And that's precisely the point. The one-sidedness of this kind of "contingent" offer can be remedied quite easily by granting such a buyer first right of refusal on any subsequent offer and retaining the right to continue marketing your home. There is rarely a good reason in such cases to take a house off the market - but sellers generally need the expertise of a real estate professional to draw up such a two-sided agreement.

### **Can I Occupying Before Escrow Closes?**

What if escrow hasn't closed in the sale of your home, but you've already moved out and the buyers want to move in NOW? Any problems?

Yes - potentially major problems. If you let the buyers move in, they will surely find real or imagined defects in your home. They may even refuse to close the sale until you repair the problems or reduce the sales price.

Bigger problems: What if they don't qualify for the loan or for some other reason can't complete the purchase of the home? How readily will they move out? Will you even have to evict them?

The problems, as you can see, could be severe. If it's absolutely necessary for buyers to take possession of a home prior to close of escrow, you should have at the least a very thorough temporary rental contract that anticipates those problems. And you should have a large enough monetary deposit to cover any unforeseen future problems. If you are even considering the above, be sure and consult with your attorney.

### **Really Selling Your Home?**

There is a very common misunderstanding of the role that the real estate professional (and the company with which he or she works) has in the sale of your home. Many people assume that, once they have listed their property with a real estate agent, that agent should show up soon - and constantly - with people who are interested in buying the home.

Every real estate agent would love to be able to do that, and most are indeed working with buyers, some of whom might be interested in your home. Your real estate agent also will doubtless want to hold "open house" at your home as well, hoping to attract a willing and able buyer in that way.

It's really the other things your real estate agent does that get your home sold: Helping you arrive at the right asking price through market research is crucial. Advising you on the best preparation of your home for sale. Making every real estate agent in the area aware of your property, so they can bring their customers to see your home. Marketing the property with advertisements, etc. Overseeing the offer negotiations, the contractual language and the subsequent escrow process. Making sure you get the most profit with the least hassle.

## **Is There A Rule of thumb?**

Let's say you've found a home in a neighborhood that suits you very well and you want to make an offer. Is there a rule of thumb regarding how much lower than the asking price you should offer? How can you know you're getting a fair shake?

There is no such rule of thumb, though many people have claimed there is. You see, the ultimate value of a home is determined by what a willing and able buyer will pay and what the seller will accept. It isn't anything like buying a car or a piece of stereo equipment...or even a bargain at a swap meet.

The best way to arrive at a home's market value is to research the market itself very carefully. What have comparable homes been selling for recently? What was the nature of those sales (that is, are sellers carrying part of the financing, selling quickly, reducing asking prices)? And what kind of financing will work best for you?

The best way to gather such information is to call upon a local real estate professional. What you want from that professional isn't just opinions - you want to see the data yourself, possibly even mental comparison. This is the kind of thorough and experienced assistance no one else is best qualified to give

## **An Independent Recommendation**

Here are some reasons why I recommend that you call upon the expert help of a real estate professional when you sell your home.

"The primary reasons I recommend home sellers select a real estate agent to professionally market their homes are:

1. One costly mistake, such as under pricing the house or not selling it quickly and having to make extra months of mortgage payments can be far more expensive than paying a sales commission.
2. The old days of (buyer beware) are gone and Realty Agents can best protect sellers from liability to buyers.
3. Realty Agents are trained to use professional marketing methods, such as the use of the multiple listing service.
4. Finally, most homeowners don't have the time or skills to know how to sell their homes. Most do-it-yourself home sellers wind up listing their homes with a professional agent. So why waste time and money trying to sell a home alone?

## **Winning With Mortgage Pre-Approval**

Generally, most of us haven't given much attention to a mortgage until we've found a house we want to purchase. But there's a great deal to be said for researching mortgages, finding the one that will suit your plans and needs best, and getting pre-approved for that mortgage before you even start looking for a home (or piece of investment real estate).

What are the advantages of doing this? For one thing, you know exactly how much you can afford to spend on a house (though it is advisable to call in the added assistance of a real estate professional who can make sure that the financing you're considering most effectively meets your needs and that you've researched all possible ways of financing the purchase).

For another, you can save a great deal of time once you do find the home you want. Except for the appraisal and needed inspections, the most time-consuming parts of closing the sale are already handled.

Lastly, you have added strength behind any offer to purchase that you make. Telling the sellers you've already qualified for the needed financing removes one of the largest unknowns from your offer. They know you can complete the deal - and that could mean a better selling price for you and the elimination of hassles for them.

### **"The Seller Buy-Down"**

Generally, when someone finances the purchase of a home with a VA or FHA mortgage, the seller pays "points" - a percentage of the loan amount - to help enable the buyer to complete the transaction. The same can be done for buyers who are not purchasing with VA and bring to top dollar in that sale at the same time that it helps the buyer finance his/her purchase.

A seller can buy down the interest rate on a buyer's home financing for the first few years of that loan. The buyer then has a lower monthly payment in the initial years of home ownership, moving to the higher payment when those years have passed - in effect, a graduated payment program. This usually makes it easier for the buyer to qualify for - and to live with his/her new mortgage.

If your home is marketed with the acknowledgment that you as seller are willing to "buy down" a buyer's interest rate, your home draws a good deal more interest from potential buyers and draws higher offers from those buyers.

This is one of several effective ways of setting your house apart from the others on the market, all worth considering when it is necessary to make your home more valuable to a potential buyer.

### **The "Deposit Receipt"**

When you receive an offer on your home, the form that the offer is written on is often called a "Deposit Receipt". Why is that?

Almost always, an "earnest money deposit" is tendered along with the offer. This deposit isn't a set percentage of the purchase price. Instead, it's simply an amount of money substantial enough that the buyer clearly would rather not lose it, and thus, the deposit indicates how "earnest" the offer is.

Most purchase contracts begin by acknowledging this earnest money deposit. When you, as seller, put your signature on such a document, you are not only agreeing to the terms of the purchase offer (perhaps with mutually agreeable changes), you are also acknowledging that you received the earnest money deposit.

That doesn't mean you get to run out and spend the deposit money, however (unless it's contractually agreed upon that you do so - and this is highly inadvisable). The money is placed in a trust account and held there until it needs to be released to complete the purchase transaction. Is it possible that the buyer can get his/her money deposit back if he or she cannot complete the purchase transaction? Yes - because there are many problems beyond the control of most buyers. But the deposit cannot be released to either party until both agree on it...in writing.

## **The True Costs Of Selling A Home**

Tom and Jerry sold their home and placed an offer on a new home, carefully budgeting their purchase on the basis of what they thought their proceeds would be from the sale of their former home. When the time came to close escrow on both the old and new homes, Tom and Jerry were shocked to find out that they were several thousand dollars short of the amount they needed to complete the purchase of the new home. In desperation, they borrowed the needed money short-term and are now seeking to roll the loan into a longer-term package.

All of this would have been unnecessary if Tom and Jerry had been given a more accurate idea of the actual proceeds of their sale. But they sold their home on their own, without the assistance of a real estate professional, and trusted that the cost of purchasing the new home wouldn't exceed the down payment and loan fees by very much.

There are, however, escrow fees, title fees, a transfer tax, possible pro-rations of property taxes and utilities, recording and document preparation fees, as well as, in some cases, mortgage prepayment penalties. All must be taken into consideration. And doing so is part of the service that a good real estate professional offers. Further, your real estate professional will know how to anticipate and minimize many of those fees, and also to coordinate sales proceeds and costs of buying

## **Selling With "Double Benefit" Part One**

Suppose you could sell your home and put a portion of the proceeds into the purchase of a new home, reserving all or part of the remainder of your proceeds for a trust fund that (1) helped the sale to occur more rapidly and the selling price to be as high as possible and (2) will provide you with an income flow and interest income as well.

You can. We're looking here at a note and second (or, in some few cases, third) trust deed: Seller financing. Let's look at a simple example of how carrying back a second can work.

Your home sells for \$400,000. The buyer has a 15% down payment (\$60,000), takes out a new loan in the amount of \$300,000, and you carry back a \$40,000 second loan. Since you originally bought the home for \$150,000, you can well afford to carry back at least \$40,000 of the purchase price. You have also helped your buyer obtain the best possible mortgage terms on his first loan by doing so.

The terms for payment on the \$40,000 second loan are entirely negotiable - you and the buyer can find terms that will best suit both of your needs, and you end up with a \$40,000 investment that will pay off attractively

## **Selling With "Double Benefit" Part Two**

In Part One, we looked at some of the benefits of considering seller financing.

Now, you may have heard horror stories about "carrying back a second". Ironically, it is because every possible horror story about seller financing is fully known that seller financing could prove a very good idea.

"Most other forms of investment are burdened with a variety of unknowns which preclude accurate assessment of their safety. The investment has received such microscopic scrutiny, so many times, that all the variables have been exposed, and chance therefore has little to do with the safety of TD investment."

This issue, then, isn't chance. It's a lack of knowledge. Carrying back a note and 2nd TD - even a 3rd TD - can be very safe and highly profitable if you are fully informed about how these instruments work. Best bet: Get the guidance of experts; call on a seasoned real estate professional and your tax advisor.

The profitability and safety of carrying seller financing is not particularly affected by the fickle market conditions that can crush most other investments. It turns instead on knowledge.

### **Emotional Equity**

You've heard of equity: the amount of money you have in a home after you subtract out all mortgage balances. You've heard about "sweat equity" the value in your home produced by your own efforts. But perhaps you haven't heard of - and, more importantly, haven't given enough thought to - the importance of "emotional equity".

Emotional equity is the value in your home for which there is no possible price tag. To this we would add the value of knowing your home is yours alone, that no one can tell you to move and no one can tell you what to do with your home. Equally important is the value of your home as the place where your family lives and grows - it is, in every sense of the phrase, the heart of where you live.

It is important to remember "emotional equity" when you buy a home. It may prove more valuable to you than any dollar value you can find in an investment analysis. Make sure, therefore, that you buy as much with your heart as with your head.

It is also important to remember when you sell that your emotional equity may not match someone else's - but emotional equity is usually what really sells a home.