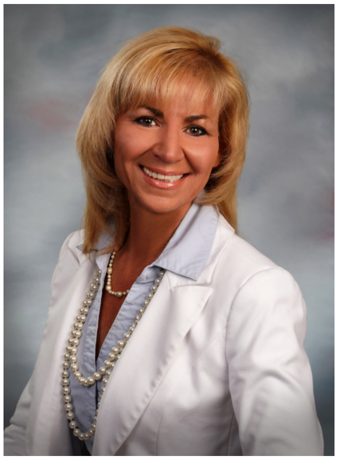
IS IT BETTER TO RENT OR OWN A HOME?

FACTORS TO CONSIDER

AN EDUCATIONAL RESOURCE



"Just A Quick Letter To Introduce Myself, And Explain Why I've Put Together This FREE Report To Help Renters, Just Like You, Get All The Information You Need... *For FREE*."

Dear Home Shopper,

Buying a home can be really confusing. Why? Because you're bombarded with misleading information, confusing claims, and bad advice from family and friends that aren't accountable or responsible to you for the advice they give.

How do you ever find solid, practical information that will help you find the right home? **You start by reading this free report.**

I'm making this report available to help you avoid some of the biggest pitfalls I see homebuyers make everyday. In this fact filled report, you'll discover the amazing secrets that I've used to put many clients in the home of their dreams.

What I'm going to share has been tested by my clients and me. In this simple, yet profoundly powerful guide, is a compilation of ideas I've discovered over my career helping people just like you.

Now, with this information, you can find your perfect home.

And if you have any questions about the information in this report, send me an email at lguthier@comcast.net or call me at (484) 336.6378. I've dedicated my business to helping people just like you.

I'm happy to help in every way.

Warmly,

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P.S.: If you are feeling overwhelmed with the process of buying a home, and you would like a personalized plan to help you get from point A to point B, I invite you to set up a home buying consultation with me by calling (484) 336.6378 Reach out to me today!

Rent Vs. Buy

As a veteran Real Estate professional and one who has helped to guide many families through the all-important decision of whether to rent or buy, let me state the following.

In some instances buying a home may not be right for you, while more often than not it can become the best lifestyle related decision you ever make.

Depending on your situation, at times renting can represent the most logical and worthwhile pursuit for individuals and families. While on other occasions it can produce a less desirable outcome both financially and psychologically.

Therefore, there is no general rule, especially given the unpredictability of both short and long term home values and rental costs.

I am sure you already know this, perhaps intuitively, yet are still in the process of arriving at the best decision for you or you and your family.

The purpose of this educational piece is twofold: one, to provide you with information that might help you achieve greater clarity and decision making resolve and two, to introduce myself as an accomplished and knowledgeable realtor, ready to comprehensively assist you in both determining and executing your personally arrived at Real Estate and lifestyle related decisions, whether as a prospective renter or buyer.

When Renting Might Be The Best And How To Decide

Would a down payment be a financial strain?

Do you plan to stay less than three years?

If you have answered yes to either of these, it may be best you continue to rent.

If you own a home for only a very short period of time you will not have the opportunity to spread the upfront closing and selling costs overtime.

Therefore, there are times when you should leave the so-called American dream to others and come out ahead by strategically renting a great place for a short period of time.

The Benefits Of Home Ownership

- The opportunity to build equity (wealth). According to research, homeowners develop 40 times the average worth than renters.
- Social stability. According to The National Association of Realtors and the American Social Workers Journal, children from families who own homes versus rent score 9% greater in math and 7% higher in English.
- Parents are less likely to divorce.
- Homeowners are more likely to participate within the community.
- Studies show home ownership provides a greater sense of stability, higher self-image and freedom.
- Homeowners are more likely to maintain the physical integrity and aesthetic appeal of their home.
- Homeowners benefit from lower crime rates.
- Homeowners enjoy tax benefits and the opportunity to develop net worth. If they have a fixed mortgage not only will their monthly interest payments not go up, but oftentimes their mortgage can be paid off coinciding with when they will retire.

Questions To Ask When Considering Buying A Home

What are the home search services that you can provide for me?

Most top buyer agents can provide a multitude of services. This would include everything from the initial homebuyer consult to arranging a connection with a quality lender and helping you to become preapproved or at least prequalified.

Also, helping you connect with other vendors such as home inspectors, repair people and other services that you might need as the process moves forward. Of course, they will be entering your matches into their MLS system; they will be also, if they are a strong buyer agent, looking at other opportunities to find homes for you, homes that are not on the market. These are often called pocket listings or quiet sales.

The most aggressive buyer agents will actually go out into the community after obtaining a profile of what you have in mind, and they will actually search for homes, find homes, and help you beat the crowd to some of the better properties in town.

What should I be looking for in a buyer agent?

Ideally, you really want to look for someone who is a market expert. They have experience in the community; also they are very familiar with the trends, the data, and any other statistics that might be needed to help you make a decision.

Do I have to sign a contract to commit to working with just one agent?

In many states, this is a common practice and many high quality buyer agents do require that you sign a contract and commit to working with them exclusively.

Now the reason that they do this is because they often feel that they are going to be investing a lot of time and energy upfront and they will only be rewarded if you ultimately purchase a home from them. I find that many home buyers feel that they do get the best service when they find a high caliber agent, experienced in the community, that they feel comfortable with and they then commit in writing to working exclusively with that agent so that they can provide all of their time and attention in helping them identify the home of their dreams.

The length of the contract can vary – that certainly can be negotiated and yet I find unless you have unique and very hard to find criteria, many buyer agents are satisfied with the 45 day or 60 day exclusive commitment. Now some may not ask you to sign a buyer broker agreement, they may simply ask that you make a verbal commitment, so you want to think carefully before you do that because again they are going to be all in and working with you; you want to be sure that you're all in and working with them.

How does the real state agent get paid for the services that they provide?

Well, the real estate agent traditionally would be paid by the seller at the closing and of course only if the transaction closes. Now there is no law that says it will only be this way so there may be cases where a buyer would pay the real estate agent's commission, or would pay a portion of the real estate agent's commission but that situation is going to be rare and it's so rare in fact that it would be something that would be extensively discussed before it would ever be likely to come into play.

Am I allowed to select my own lender and other services or does the agent always choose them for me?

Most quality agents will have a good list of quality vendors, and they actually consider them an extension of their team. Not because they're getting kickbacks or special favors, but because they actually know that these vendors have a track record of giving their clients terrific service. And because they are loyal to those vendors, the vendors will go the extra mile to help their clients achieve their goals.

Now you certainly are allowed to select your own lender and other services. However, you really want to do so with great thought and great care. Many transactions fall apart; a lot of stress can be added when you choose or if you choose a lender or other affiliate who is not someone who can deliver at the level that you need. So if you've got a lot of confidence in your real estate agent and they are an experienced veteran, it usually goes well for you to lean on them for some guidance and some recommendations.

What are the most important things I need to know about the current market to make a wise purchase?

First of all, I think you need to start with how long do you plan to own the home and why are you buying the home? If you're looking to buy a home and you're only planning to live there a year or two, and you feel that it's in a market where values are trending down, it may not a good time for you to buy because you may end up stuck in that home.

However, if you're buying for a home to live in and you're planning to stay there for a long period of time, you can buy in most markets and do absolutely fine over time. Because every market has its ups and downs but the average homeowner often owns their home 10-15 years, and usually within that time period in most markets they make a nice profit. And, of course, there's more to buying a home than just appreciation, that's having a home that you love, a tax deduction, and also the opportunity to pay it off one day in the future if you choose to do so, and have a secure home to live in for the rest of your life.

So what you can do is ask a real estate agent to provide any market data about the trends in your market in terms of: are prices moving up, are they moving down, how many homes are on the market, what is the average days on market? So it'll really give you a view of what's going on and that should help you, with the counsel of a good real estate agent, make a good decision.

What are the questions I should be asking my real estate agent that I might not know I should ask?

You may want to ask them what are they seeing in the local market? Ask them for the lay of the land. In other words, what should you be prepared for when you're out there negotiating? For example, if you're in a rapidly appreciating market, then what you may need to be aware of is that the list price is really nothing more than the opening bid at an auction.

In other words, you may be bidding against other buyers.

And that may be something that you would want to be prepared for. You may want to ask them if you are negotiating aggressively for a home you love, what are some of the contingencies you should remove, what can you do to make your offer as attractive and as clean and simple as possible?

Can you educate me on the process of writing and negotiating an offer so that I can be prepared in advance?

Actually, I recommend that you ask your agent for a copy of the purchase agreement. This will give you a chance to read over it, to be comfortable with the clauses, to highlight and ask and questions about anything that might be concerning to you. Because when you find a home you love you may have a limited window of time to very quickly make a decision to make an offer. And that's why you're going to want to be very comfortable with the document that you're signing.

Also, you will want to ask your agent how does the negotiating process in your state, in your market, work? You want to understand exactly what you can and cannot do, what you can and cannot expect, and what are the responsibilities of the seller and the other agent? This is exactly why it's important to sit down with your agent upfront and go through a thorough consultation, which includes a mini education on what to expect from the market.

Do you have a homebuyer's guide or other valuable reports I can access?

Many real estate agents do have a guide that talks about the local market, that outlines their services, and they often do have access to reports and data that, while you may be able to find it on the internet, you might not be aware of where to look or how to interpret it. So make a list of the things that you would like to know or that you would like to have provided and ask your real estate agent to put those together for you.

What happens if I'm searching for a home and there are no active listings that fit my criteria?

If you're in a low inventory market this very well could happen. So what you'd want to do is first of all, sit down and reexamine your criteria, including the areas that you're willing to consider. If there are very few homes to see, the more you broaden your criteria and search area, the more opportunities you will open. Also, take a look at your price range. Often buyers can afford a much higher price point than they're shopping for. And at the end of a lot of pain, they end up going for an up in price and finding a home that they like. I seldom see buyers regret buying a home that cost just a little more but had everything they were looking for.

So you can change areas, search criteria, expand it, you can eliminate some of the requests that you have, and you can bump the price of the home to offer more opportunities.

How much legwork and research should I do on my own?

Actually, if you have a strong real estate agent, virtually none. Because when you're committed to working exclusively with an agent, they're going to do all the research for you, they're going to be on the internet searching the MLS, out in the neighborhood, prospecting, searching expireds, for sale by owners, a really strong buyer agent literally leaves no stone unturned to find you a great home.

In fact, one of the questions you may need to ask when you're selecting a real estate agent is, if you do not find matches of homes for me how exactly would you go about finding me a home? What else would you do to bring great options to the table? If they don't have an answer that may not be a real estate agent that you should hire.

Should I go direct to the listing agent?

This is an interesting question and certainly it is not a problem in most cases to do so. If it's a reputable agent who is really looking to facilitate a win-win situation and represent both parties fairly.

So you're going to need to get to know them and make sure that you feel comfortable. The reason that buyers do this is they're either hoping to negotiate a kickback, which most strong agents are not going to agree to, or they're going to be looking for an opportunity to have a leg up in the negotiation because they've gone directly to that listing agent who stands to profit more when they buy a home.

Now this may help, certainly may make some difference, however when there are multiple bids, a reputable agent is going to present all offers to the seller, and ultimately the seller is going to make the decision, albeit with the guidance of the agent, but they're going to make the decision typically based on who's the most qualified and what offer nets them the most money. Not based on the agent that you're working with.

Now having said that, though, it's important to make sure that you're working with someone who is in good standing in the community and the real estate community, well respected, ethical and honest, and does a good job, because otherwise top listing agents may not want to work with your agent and may put your offer to the bottom of the totem pole. So buyers often believe, it really doesn't matter who opens the door or writes the contract, and yet it does matter, because if they're not someone that the community wants to work with that may get in the way of getting your offer accepted.

Also, if they are a novice, if they are inexperienced, then they may not be able to negotiate on your behalf and they may not be able to navigate the problems of the transaction.

Is it better to work with multiple agents to find the best deal?

Well, when you think about it, that would make sense, however, quite frankly the opposite is often true. Because when a buyer is working with multiple agents, the agents, knowing that there is no loyalty, will often only throw their scraps or their crumbs or the picked over leftovers to that particular buyer. Because what they're often going to do is they're going to give their best properties and their best opportunities to the buyers who are loyal and committed exclusively to them.

When you think about it, it kind of makes sense. They're investing a lot of their time and energy and talent upfront, and the only way they will get rewarded is if you ultimately buy a home from them. So if you want a top notch agent to work for you, to leave no stone unturned to find you the home, to prospect and to put all of their leverage to bear to bring good homes to the table, then you're most likely going to want to consider committing to work exclusively with them, at least for a reasonable period of time.

What percent below the asking price should I offer?

This is an interesting question and a difficult answer. I often have encountered buyers who have a formula in their head – that they should just offer 10% less or 15% less, because they read that somewhere in a book.

Well the reality is: there is no formula.

You really have to examine a few things. Number one – what's going on in your market? Your real estate agent should be able to tell you, how close to the asking price or even what percentage above the asking prices most homes in the area are selling for. And that should help you make your decision. So you're going to look at the market, you're going to look at the home itself, how much do you like the home? Because if you make a low offer, you may risk losing the home for a few thousand dollars. So you really have to weigh the pros and cons. How badly do you want the property, and what is the most you're willing to pay to make sure another buyer doesn't get your home.

What tax credits or home buyer incentives should I be aware of?

Well to start, you are able to write off the interest deduction and many of the costs of purchasing the home in the first calendar year that you purchase it. Now for additional incentive, that would be something that you would discuss with your lender and with your agent to see if there'd be any additional BA credits or first time home buyer or low income credits. So have a discussion with your lender after you have an opportunity to meet with them and explain your situation.

When should I notify my landlord I am buying a home and how do I time my move?

That depends on your landlord. That depends on if you're month to month or you have a lease. You should review the terms of your lease or your rental contract with your real estate agent and with your lender. They will help and advise you on how and when to notify your landlord. And if you're courteous and gracious to the landlord, if you make it easy for them to re-rent the property and accessible for them to show the property while you're still living there, you might be able to negotiate something with them if there is a gap between when your lease is up and when you're ready to move into your new home.

Do I even need an agent at all?

Unless you're buying for sale by owner, it's going to make it difficult to go direct to a homeowner. Now you can certainly find a friend or an acquaintance or a neighbor that's selling their home, talk with them and negotiate with them, assuming their home is not listed with a real estate agent.

So if you hear about it at church, you hear about it at work and they have not put it on the market, yes you could talk to them, you could work out a deal, you could put that deal in writing, you could go get a loan, get title insurance, get whatever documents are required in your state and you could close the deal without a real estate agent. But that's probably not that likely to happen, because that would assume that you have friends that have a house that you love.

So for the most part you're probably going to be out shopping in the market and most quality homes are usually represented by an agent because the sellers want to maximize their opportunity for exposure. Now if you go direct to a for sale by owner, you can often negotiate to bring your own agent in and they may or not pay them, they may split the cost with you. It is a bit concerning to go direct to the owner because you have no one on your side, protecting you, helping you navigate the contract, dot your i's and cross your t's, and that's exactly why most for sale by owners ultimately end up listing because most of the quality buyers are going to be working through an agent, because when you think about it for a buyer, for the most part working with an agent is going to be free. So why not hire the best consultative services that you ultimately don't even have to pay for?

So just something to consider as you protect yourself in the transaction.

Which home search services you should expect your agent to provide:

1. In-depth Home Buyer Consultation
2. Arrange a free pre-qualification and introduction to quality lender
3. Enter your criteria in their search system and notify you of new matches via e-mail as they occur
4. Be available to show you property as needed
5. Review and revise the search criteria as needed
6. Write the contract to purchase and handle the negotiations
7. Open escrow and supply the lender with the necessary paperwork
8. Arrange all inspections and appraisals
9. Keep you updated on all aspects of the transaction throughout the process
10. Supply reputable vendor referrals as needed
11. Arrange a final walk-through
12. Arrange signing of loan documents
13. Deliver the keys
14. Provide quarterly updates on market conditions post-closing

Home Buying Process

Find a Realtor You Can Trust

I

Analyze Your Needs in a Consultation

I

Obtain Financial Pre-Qualification & Pre-Approval

I

Select Properties

I

View Properties

I

Write an Offer to Purchase ------ Earnest Deposit Money

I

Negotiate & Counteroffer

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Complete the Mortgage Application ------ Inspection ------ Remove Contingencies

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Accept the Contract ------ Credit Report ------ Appraisal ------ Verification

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Rejection ------ Secure Underwriting ------ Conditions

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Obtain Loan Approval

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Schedule Termite & Survey

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Contact Title Company ------ Title Exam & Title Insurance

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Close the Property

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What are FHA loans are and how do they work?

FHA is probably the second most common loan in the U.S. today for buying a home. Your basic conventional loan — not the jumbo amounts and not anything super-complicated; the conventional and the FHA are the 1-2 punch of most home buying today.

FHA is a loan guaranteed by HUD — the U.S. Department of Housing and Urban Development. It's similar in concept to a guaranteed HUD/FHA isn't on the hook for a loan if the buyer defaults. The lenders involved, or insurance companies they pay, have that responsibility. What all this means is that the program is paid for by the participants in it — no taxpayer dollars. There are fees or insurance premiums the lenders pay to cover that. It's all financed by the people actually using it.

FHA is the Federal Housing Authority, the actual agency that guarantees the loan. I would emphasize here that these entities — HUD and FHA — do not actually lend the money — that comes from a lender, whether a bank or some other funding source or company. They just guarantee the loan once it's made.

Since they're guaranteeing the loan they get to make rules about what loans get made. Lenders that are "FHA-approved" issue their loans — lend you money to buy a house — based on a slew of guidelines from FHA.

HUD sets those guidelines through FHA —the agency is run by or under the department — and lenders comply with them. This is great news in several ways — not least of which because it means these lenders have been vetted by an outside authority, and a pretty big one at that — the U.S. government.

OK so what kinds of guidelines are we talking about here?

These guidelines involve everything that buying a home involves: down payments, credit scores, income calculations, and so on. This follows on the overall vetting process as another good thing because now we have baselines for all these super-vital parts of the process of buying a home. Instead of wondering "how much" of this or "when am I OK here?" FHA guidelines just flat out tell you.

So everyone should go get an FHA loan?

The people who benefit the most from FHA loans are ones who have saved less money for their down payments — not out of any kind of mistake or bad behavior, it's just reality, or how much time they've been saving, or what's in the 401(k) that can contribute to the down payment, and so on. The program might also appeal to people on the lower range of a good credit score. So if you have a strong down payment — 10 to 15% or more — and excellent credit, you're going for that conventional loan.

FHA loans are out there to offer terms to buyers who might not qualify conventionally through a bank or credit union. It's giving people access to the credit markets, who don't usually get it — based on what I mentioned before, which are those specific guidelines on what the loan can look like.

What are the guidelines?

For one thing the down payment is almost always 3.5%. That's 99 out of 100 cases. There are rare instances — hardly any, as you can see — where you have to come up to something a little higher than that for the down payment. But in general that's the number and the interest rate on that loan is going to be the same whether you put 3.5% or 35% or 85% — though of course if you can put 85% down you don't need FHA and why aren't you letting that money work for you in stocks!

One caveat or exception here is that if you put a little more down — say 5% instead of 3.5% — you can get a lower monthly premium for the insurance. But it makes such a small difference on the monthly payment it's not usually worth it. Might as well take that extra 1.5% and start working on the home to get it exactly how you want it, or maybe go out to dinner for a week to celebrate buying it.

Bottom line here is that people with a lower down payment saved are probably going FHA.

Do I have to be a first time home buyer to qualify for an FHA loan?

While FHA is not a first-time homebuyer loan by design, it's just that many first-timers, not coincidentally since they haven't been building up equity in a home they own, only have the low down payment.

It's a low down payment loan which often means first-time homebuyers. But it doesn't have to.

There's only one requirement for an FHA loan and that is that you don't currently have another FHA loan outstanding. You can only have one at a time. What that means is if you're in a home, now, and looking to move up, tap the equity and get a bigger place, or move down as an empty nester — you can't get an FHA loan for the new house if you have an outstanding FHA loan with the home you're in now. You'd have to sell the home you're in, first, which tends to be tough as you're also trying to move into a new place.

Basically an FHA loan has to be "owner-occupied" — meaning you have to live there. You can't take out an FHA loan on a rental property or an investment or a home you're planning to flip. It works that way for one simple move — you just can't get a new FHA loan for the new home. So if you buy with FHA and five years later want to make that a rental, you're not going to get a new FHA loan on the home you move into. In that case you refinance the existing loan — close it out with a new conventional one, which might now be possible for all the equity that you've built up in five years — and then you keep it as a rental and move into your new place, with a new — 3.5% down — FHA loan.

So what are some of the downsides to FHA? You said there are differences for FHA compared with conventional — what are some of those?

The main difference is that mortgage insurance premium. No matter what, you pay it. You could put 50% down and you would still have to pay for that insurance — it's how the loans can be made at all because as we said it basically goes into the fund that guarantees FHA debts.

So again, one point there is if you have enough of a down payment to go conventional — do it. It saves you from paying that insurance premium.

With a conventional loan you can often get rid of that mortgage insurance but with an FHA loan you never will — you can't get a "lender-paid" deal where you trade a slightly higher interest rate for no insurance. You can't get rid of it — at all — until the loan is gone.

Maybe you can do that through a later refi after you build up that equity but that's later: right now, you're paying it.

The Truth About Your Credit

Did you know there are actually more than 55 different scoring models?

FICO is the most common; it's the one most people have heard of — so much so that people talk about "the FICO score." The letters in FICO stand for the company responsible for it: Fair Isaac & Co. Two men — Fair and Isaac — founded the company 60 years ago — Steve Jobs was just one year old — up in Silicon Valley and before anyone cared about a place called Silicon Valley. It was actually a software firm.

So now it's an acronym that everyone knows — but few people know anything about. FICO is a measure of our credit worthiness based on the debt agreements we have, and whether we've made payments on time, what our outstanding balances are, and so on.

It's a calculation — the two founders of FICO were an engineer and a mathematician — so from all that you would probably be forgiven for thinking the whole thing is quite scientific, all of it so numerical and set-out and how could you argue with that, let alone change it?

There's a complex mathematical algorithm where all the information in your credit report gets plugged in and they kick back a score, and there's a lot of variation possible among the results. There's better and worse and it does matter — or we wouldn't be talking about it at all. But it isn't correct to say there's one perfect score. On top of all that, we've occasionally changed it, the algorithm, to reflect new financial realities of our particular time.

So the figuring and your final score are both complex and a shortcut for anyone looking to lend you money. The major reporting agencies — companies separate from FICO, including Experian and TransUnion — look at common factors, break them up into categories — types of debt — and then the lender — not the reporting agency by the way — makes a decision.

The main areas lenders look at are how long you've had credit and how you're using it. That's the number of credit accounts and the number of years they've been open, and then balance information — how much you've borrowed against the total amount available.

Not surprisingly the longer you've had credit, the better, and lower balances — also better. If you've had accounts open for a long time it means you've paid on them for a long time — the evidence is there for all to see. If you haven't paid those bills you have a different problem, so we're focusing on saying yes, you've paid the bills. You've paid the bills and you haven't gone and run up those balances again.

Young people are going to have less of a history with credit. They've made all their payments but they haven't had the credit very long. It's like you're not even able to get the highest scores out there.

On the other end of the spectrum is the little old ladies who've had the same credit card from BofA since — well, maybe, since FICO was founded — and they have those legendary 800 and 850 scores.

So you're going to have variation among people and variation even among your own scores if you look at one credit reporting company vs. another using one or another of those 55 scores.

What if you've got some … issues … on that report?

It's not the end of the world. I've seen people with maxed out credit and they still get a good FICO score because there are other factors. There's making your payments on time — I wouldn't say it's good if you've got a long credit history but it's a history of late payments. The history needs to be a good history. That's telling a prospective lender something, as well.

So if you've got some derogatory entries that lender looking at you wanting to borrow half a million dollars or more wants some answers. It could be you're disorganized — but you have plenty of money so eventually you pay all your bills. But it could be you're lazy and don't pay your debts. I'm not saying that but look at it from the lender's perspective: they don't know and they need to decide.

These things taken together — high use of credit, late payments, lack of history — end up being pretty good indicators of what sorts of people we are, at least financially. Then they look at that across multiple people, in fact, millions of them. They see 5% of people behave — generally — a certain way, and another 30% are in this grouping, and the rest are like this other set of actions.

The last factor is also the smallest one and it's the total amount of credit you have. If you have a long history, low use, and no late payments … but it's all on one card, that's not as good as multiple accounts. It's a smaller issue than the other three but it plays into the results.

Will Credit Inquiries Impact My Credit Score?

Inquiries. That's when someone checks your credit. They have a temporary effect on your credit numbers. When a potential lender pulls your credit report they see who looked at your credit over the last six months. After six months it falls off.

There's a formula at work here but basically every inquiry affects your score by 1 to 2 points. It doesn't sound like a lot but if you apply for several cards it adds up. Just 10 inquiries in the last six months and you might be down 20 points; that's going to affect your interest rate and other aspects of the loan.

People do ask me why this matters. "Why does someone just *looking* at my report affect credit scores?" As with everything else it's related to how it reflects on your behavior. The lender will look at the inquiries and say, "This person is applying for a lot of credit — more credit than the income from their job would support. Why is that?" Or they're going to ask themselves about the results you got from those inquiries — "Why are these other lenders saying no to requests for credit from this person?"

The exception here of course is when you apply for credit, there's an inquiry, and you get that loan or that credit card. This reflects, generally speaking, positively on your credit. Even better is when you're buying your second or third home. The lender considering you today looks at a couple other lenders who said, "Yes, we'll front this person $600,000" and then the lender will look at several years — perhaps a decade or more — of on-time payments. This increases your credit.

What if you have no credit whatsoever? How can you build it up?

There's a very specific basic formula to get credit and build it quickly when you're just starting out.

First, you get a secured credit card. You put money into a savings account with a bank that is then going to issue you the card. These are often about $300 to $500 or so and you can apply online in many cases. The amount of credit the bank grants equals the amount in the account. You can't touch the account while the credit card is open and in 12 to 18 months, if you have that good history we talked about before, that's about when the bank will release your funds back to you and the card becomes a standard card. In the meantime, you're working and that means you might qualify for other small credit cards without a savings account. In any event, once the 12 to 18 months is up you'll have that credit history and you can go for the regular card then.

A second step is to get a car loan. The loan is secured in part by the car itself and the dealers — oh they *so* want to sell you that car. So you might not get the best rate — you've got no credit history, remember — but the goal is to get the car, and the loan that goes with it.

Let me give you an inside scoop on this. People disagree as to why, but a car loan actually has a lot of heft when you go for a home loan. Maybe it's because banks lend for both, or because a car is considered so crucial to our lives that if you qualify for a loan to buy one, we're back with that future home lender looking at the car loan and saying, "Here's someone I can trust."

See what we're doing here? You've got a secured card, a good job, a car loan — it's all coming together.

But it's taking me two years!

Two things about that. First of all, you've got to do it and you are doing it. All the loans are what we call "trade lines" and you need to open up those lines and keep them open and do all the "good credit" behaviors that we discussed earlier: pay on-time, keep balances low, and so on. Rule of thumb, we want three trade lines open for 24 months. It's a guideline, not a hard-and-fast rule, but there it is.

Two years! OK … what's the second point?

The second point is you're going to be super ready. You've started to talk with a lender — me — and you're taking these necessary steps, and everything is clean from the start and all, all of it, can only get better.

OK. The issue of "trade lines" reminds me of something. What about the credit card or line of credit, you haven't used it in a long time and you think, OK, I'll close it, I'll shut down that account because I don't want it affecting my score. Should people keep the accounts — the "trade lines" — open?

Bottom line: when you close out a card you've had for 10 or 20 years what you just did is cut off 10 or 20 years of positive credit history. You spend two decades building it and you shut it down in 10 or 20 minutes on the Internet!

Closing credit accounts changes things — big time. It's better to have a card open and unused than to have had the card and then close the account completely. Just keep the zero balance.

Of course, it's better to use it occasionally — but even that doesn't have to mean "debt" in the formal sense. Just keep it open and set some small, automatic monthly charge on it: ten bucks for Netflix or something.

Make sure there's no annual fee — you don't want to pay extra for "just having it" — but you're not going to do anything crazy with it either. Ten or 20 bucks a month, set your bank account to automatically pay it once Netflix charges you and forget about it.

Even that small amount of activity is enough. You want monthly reports to credit bureaus that say, "This person is a good user of credit, charging something every month and paying it off all the time, on-time, every month."

It's almost magical and just as with closing an account, changes things — big time. Only now it changes thing for the better.

We get people who say, "You know, I've got a good score, I'm at 740, 780, top tier, I'm good."

I tell them, "You can always go higher." Every bit is better. Our credit scores can fall, and they can rise, and you want them to rise.

What about short sales, foreclosure, or bankruptcy?

First, there's a timeline involved — how long will you have to wait, what were the conditions when credit or that home loan went bad for you, what kind of loan are you trying for now and so on.

The general range for "seasoning," as we call it, is between 2 and 7 years. But we have programs where you have a foreclosure and the next day you could get a loan. It will be an ugly one — so let's not understate that. But you could do it.

Other options flow upward from there. The more seasoning you can get, the more options are opening up to you, the better it is.

Some basic guidelines: a short sale requires less seasoning than a foreclosure; different kinds of bankruptcy are different lengths of time. Multiple events can change things too.

One key point is that while many people think you have to wait the full 7 years — because of a bankruptcy, let's say — that is rarely the case.

What's the quickest way for someone to boost their credit score 20 or 30 points and get a better interest rate, or a better loan?

Great question. Really, time is again your friend here, just as with the issue of what we called "seasoning." There's nothing better than adding to the length of time where you're credit is good. Whether you're starting with no credit, normal credit or bad credit — or these events we were just talking about.

Needs & Wants

Name ____________________

Address ____________________

Telephone: Home ____________ Work ____________ Work ____________

Children (names/ages) ____________________

Pets ____________________

Hobbies/special interests ____________________

Best time/days to look at homes ____________________

Reason for move/purchase ____________________

Current home: Purchase (Date/Price) ____________ Estimated Equity ____________

Other ____________________

____

Like about present home	Dislike about present home
____________	____________
____________	____________

Needs

Type of home (number of stories) ____________________

Style of home ____________________

Size of garage needed ____________________

Exterior desired ____________________

Lot size/yard features ____________________

Number of bedrooms needed ____________ Number of baths needed ____________

Special rooms needed ____________________

Distance to:

Employment ____________ Public transportation ____________ Church ____________

School ____________ Shopping ____________ Other ____________

Other special needs ____________________

____

Wants

Include features the buyer would like to have such as a family room, dining room, patio, porch, fireplace, heating/cooling systems, built-ins, recreation, sauna, hot tub, swimming pool, etc.

____

____

Estimated Purchase Price: ____________________

Information to be Reviewed with your Lender

Employment and Income

Purchaser

Employer________________________________

Address_________________________________

Position ________________________________

How long__________Years___________Months

Total gross monthly income

(include overtime, bonuses, other incentive pay)

Earnings for last three years 20____$ ________
20____$_________
20____$ _________

Co-purchaser

Employer_________________________

__________________ Address_________

____

Position___________________________

__________________ How long________Years

__________________Months Total gross monthly income

(include overtime, bonuses, other incentive pay)

Earnings for last three years 20____$ _________
20____$ _________
20____$ _________

Is purchaser or co-purchaser eligible for federal VA? ______________________________________

Is purchaser or co-purchaser eligible for any special home mortgage programs?________Type ________

Assets And Liabilities of Purchaser(s)

Assets

Checking (bank)________________$ _________

Checking (bank)________________$ _________

Savings (bank)_________________$ _________

Savings (bank)_________________$ _________

Stocks/bonds (market value)______$ _________

Life insurance (cash value)________$ _________

Real estate (equity available from sale) $ _____

Other_________________________$ _________

Other_________________________$ _________

Other_________________________$ _________

TOTAL_______________________$ _________

Liabilities

Unpaid balances Monthly

payments Real estate $

__________________________$

____________ Automobile $

__________________________$

____________ Automobile $

__________________________$

____________ Charge accounts (monthly

payments beyond six months)

$______________$

____

$______________$

____________________________ Alimony/child

support $

Other $______________$

____________ Other $

____________$ ______________ TOTAL

$______________$

____

Have you been involved in any bankruptcy, mortgage foreclosure, garnishment, judgment or receivership proceedings, or any other credit problems in the past 7 years?

Money available for initial investment $ ________________

Money available for monthly investment $ ________________

Estimated home purchase price range $ ________________ to $ ________________*

NOTICES/DISCLAIMER

This is not a loan application. The Rent vs. Own System[SM] may not apply in every circumstance. Price range and costs can vary depending on the type of financing selected. Figures are based upon an estimated home purchase price, and are not guaranteed to be complete or accurate. Any and all representations made by the sales executive to the purchasers as to their ability to qualify for the Rent vs. Own System[SM] is subject to receipt of a satisfactory credit report. The Realtor/Broker has an ethical obligation to quote the full asking price of the property being offered for sale. It should be understood that if your current home (which you may be selling) does not close title prior to the closing of the home which you are purchasing, that you may incur additional carrying charges for bridge financing. The Realtor/Broker hereby discloses that he/she may also be representing the purchasers in the capacity of a seller of their existing home. All financial information should be discussed with your CPA or financial advisor.

Mortgage Interest Deduction

Qualified mortgage interest is interest and points you pay on a loan secured by your main home or a second home. Your main home is where you live most of the time, such as a house, cooperative apartment, condominium, mobile home, house trailer, or houseboat. It must have sleeping, cooking, and toilet facilities.

A second home can include any other residence you own and choose to treat as a second home. You do not have to use the home during the year. However, if you rent it to others, you must also use it as a home during the year for more than the greater of 14 days or 10 percent of the number of days you rent it, for the interest to qualify as qualified residence interest. For more information regarding a qualified residence (home), see Publication 936, *Home Mortgage Interest Deduction* and Can I Deduct My Mortgage Related Expenses?

Qualified mortgage interest and points are generally reported to you on Form 1098 (PDF), *Mortgage Interest Statement*, by the financial institution to which you made the payments. The following mortgages yield qualified mortgage interest and you can deduct all of the interest on these mortgages:

- A mortgage you took out on or before October 13, 1987 (grandfathered debt).
- A mortgage taken out after October 13, 1987, to buy, build, or improve your home (called home acquisition debt) but only if throughout the year these mortgages plus any grandfathered debt totaled $1 million or less. The limit is $500,000 if you are married filing separately.
- Home equity debt other than home acquisition debt taken out after October 13, 1987, up to a total of $100,000. The limit is $50,000 if you are married filing separately. Home equity debt other than home acquisition debt is further limited to your home's fair market value reduced by the grandfathered debt and home acquisition debt.

If one or more of your mortgages does not fit into any of these categories, refer to Publication 936, *Home Mortgage Interest Deduction*, to figure the amount of interest you can deduct as an itemized deduction. You may be subject to a limit (phase-out) on some of your itemized deductions including mortgage interest. For more information on the limitations based on your adjusted gross income, please refer to the Form 1040 General Instructions (PDF) and Topic 501.

IRS

https://www.irs.gov/taxtopics/tc409.html

Glossary of Terms

A

Acceptance – The time at which an offer to purchase is accepted. The fact that it was accepted must be replayed to the person that made an offer in order for all parties to be bound to the contract.
Amortization – The repayment of a loan over time. With each payment, there is a reduction of both principal (the original amount borrowed), plus the interest.
Appraisal – A professional determination of value. Mortgage companies usually require an appraisal of the property by a licensed, disinterested party before agreeing to loan money on the property. Methods of determining value may be based on many things, such as comparable sales in the area, the cost approach, the income approach, or the highest and best use of the property.
As Is Condition – Disclaiming any warranties or representations regarding the condition of the property.

B

Back-Up Contract – A contract or offer that is in a secondary position to an already existing contract. This contract shall be elevated to the first position if some condition in the first contract is not met. If the first position contract is consummated, then the second contract is no longer in effect.
Bridge Loan, also called a **swing loan -** A short term loan used to transition in between the paying off of an old loan, and the inception of permanent financing. This is often used to build or purchase a new home, when the previous home is still owned, but is up for sale. Once the previous home is sold, and the owner receives the proceeds from that sale, permanent financing is usually obtained.

C

Certificate of Title - A statement verifying who has the rights and responsibilities of ownership in a property. This may be ascertained by a public record search but does not guarantee that any other parties may not stake a claim to the property. Title insurance protects against claims that may arise against the title.
Clear Title - Ownership that is free of liens, defects and encumbrances, beyond those which the the owner agrees to accept.
Closing - The transaction where title passes from seller to buyer and the seller is paid. A settlement statement shows all costs incurred and gained by both parties.
Closing Costs – The expenses incurred in obtaining the property and transferring title to the new owner. This may include, but is not limited to attorney's fees, points, title charges, credit report fee, document preparation fee, mortgage insurance premium, inspections, survey, appraisals, prepayments for property taxes, deed recording fee, and homeowners insurance.
Commitment Letter, also known as a **loan commitment** - A written offer by a lender to make a loan by a particular date under certain conditions. A buyer has more clout with a seller if he submits a letter of loan commitment from his lender to the seller at the same time that he submits his offer to purchase to the seller than a buyer who has not even applied for the loan yet.
Contingency - A condition that must be met before a contract is legally binding, or before a sale is to be completed. The contingency provides an out or an escape from performing if the condition is not met.
Conventional loan or **conventional mortgage** - A real estate loan, which is not insured by the government agency FHA nor guaranteed by the Veterans Administration. Typically subject to the terms of their particular institution, the conditions may be more flexible, as the lender is not required to follow federal guidelines. The lender looks to the credit of the borrower and the security of the property to insure payment of the debt.
Counteroffer - If the receiver of an offer makes any changes to the original offer, it is considered a rejection of the initial offer and becomes a counteroffer.

D

Deed of Trust - Some states use a deed of trust to convey property being held as security for a loan. This document is then conveyed to a trustee and can be used to sell, mortgage or subdivide the property.

Deposit – (also called Earnest Money) - A good faith deposit of a sum of money offered by the prospective purchaser at the time of the offer to purchase. These funds are typically deposited into an escrow account and held until the real estate closing takes place. At the closing, the buyer is most often given credit for the earnest money that has already been paid, but it some cases it may be returned to the buyer at closing. These funds may also be returned to the buyer in some cases if the contract on real property doesn't go through to a final sale.

E

Earnest Money (also called Deposit) – Funds given by the buyer and held in an escrow account until the real estate closing. In some cases, these funds are refundable if the loan fails to close, but if the loan does close, the purchaser is given credit at closing for the earnest money.
Exclusive Agency Listing – A written agreement between a property owner and a real estate broker giving the broker the exclusive right to sell the property for a specified period and at a specified fee. Agents whose licenses are held by a broker may sign on their broker's behalf.

F

First Right Of Refusal - A legal right by an individual giving that person the first opportunity to purchase or lease real property.

H

HUD -The U.S. Department of Housing and Urban Development. This is the agency responsible for enforcing the federal Fair Housing Act Among HUD's many programs are urban renewal, public housing, rehabilitation loans, FHA subsidy programs, and water and sewer grants. The Office of Interstate Land Sales Registration, the Federal Housing Administration (FHA) and the National Mortgage Association (GMNA) are all under HUD.

L

Loan Commitment - A lender's written approval granting a specific loan amount, conditions, and a set time limit for closing the loan.
Loan Origination - The process of applying for a mortgage loan.
Loan Originator - The person who assists borrowers in obtaining their new loan.
Loan to Value - The ratio of the amount of the loan divided by the value or sales price of the home.
Lock In - An agreement in which the lender guarantees a specified interest rate for a certain amount of time at a particular cost.

N

Non Conforming Loans - Loan amounts that exceeds FNMA's maximum lending**.**

P

Possession - The buyer occupying the property that is purchased or a tenant occupying the property that is leased. In a real estate sale, possession is rarely granted prior to closing when the seller receives their funds.
Prequalification - Having a mortgage lender advise that debt ratios and credit report plus other factors show a borrower qualifies for a particular loan amount before signing a contract.
Purchase and Sale Agreement - The contract between the buyer and seller stating terms, conditions, sales price and other pertinent information about the property being purchased.

Q

Qualify - To meet the guidelines based on debt, income, and credit worthiness.
Qualifying Ratios - Comparing a borrower's income to their proposed monthly housing expense. Also comparing their income to monthly housing expense added to all of the borrower's other debt obligations.
Quit Claim Deed - A document by which one property owner releases his or her claims, rights and interest in a particular property.

R

Rate Lock -When the lender issues a written commitment to a borrower as to a specific interest rate for a specific period of time.
Real Estate Owned – (REO) - Real estate that is owned by a bank or financial group. Usually a result of their borrowers defaulting on the loan and the subsequent foreclosure of the property from that buyer.
Right of first refusal - The right to the first opportunity to lease or purchase real property. For example, apartment tenants might retain the right of first refusal when their units are being converted to condominiums.

S

Sweat Equity - The equity earned as a result of the owners' labor in upgrading and improving the property.

T

Tax Lien - A lien against a property for unpaid taxes.
Ten Thirty One Exchange – (1031 Exchange) – A means of deferring capital gains taxes on real estate exchanges for like kind properties. This is allowed under the U.S. Internal Revenue Code, Section 1031.
Term - The length of time it will take to pay the mortgage in full.
Time Limit of an Offer - An offer should include a specified time period during which the other party must decide to accept, reject, or counter the offer.
Title Company -The company that, for a fee, checks and insures the title against liens, ownership claims, and title problems.
Title Insurance - An insurance policy that may be purchased to protect the new owner from any liens or clouds against the title. In order to issue title insurance, the issuer will perform a title search in the county records. Since title is searched at the time of closing, title insurance is usually less expensive at the time of closing, rather than if a buyer called the title company at a later time, as an additional title search would have to be performed prior to issuing the insurance.
Title Search - A review done by the title company's representative of all records available to determine if the title is indeed clear of all liens and claims.

4 Steps To Buying A Home:

Step 1: Make a Commitment to Act.

Funny as this may sound, I can't tell you how many times people have requested this report and then said to me, "If I would have known what to ask the agent before I hired them to help me buy a home, I would have avoided so many problems!"

I've shared just a few simple ideas in this report. Ideas that if acted upon could prove to be worth thousands of dollars when acquiring your home. But these ideas are only as good as the action put into them. Decide to act right now.

Step 2: List Your Objectives.

Jot down what your goals are in buying your home. What is your ultimate goal? Buy quickly? Get a fixer-upper? What school district do you want?

What do you expect from the agent you hire? How and how often do you want them to communicate with you? How many homes do you expect to see? If so, how often do you expect it?

Step 3: Contact an agent that works with homebuyers.

Of course I'd love to be the agent you choose to work with, but let's face it, I'm not right for everyone. That's why I've provided this information. So you can find the agent that is right for you.

If you would like additional information, please reach out to me at (484.336.6378) or via email at lguthier@comcast.net.

Step 4: Act.

Do I need to say anything more? Reach out to me and let's talk about how to you into your next home. Let's work together!