# Chapter Four
# Buying and Selling a Home

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## Introduction

A HOME IS THE LARGEST PURCHASE most Americans will ever make. If you are one of the millions of Americans about to buy or sell a home, it's important to understand the ramifications of the decisions you will make. For example, state and federal law, the economy, your personal preferences, your financial situation, the prevailing real estate market, current mortgage rates, and tax considerations, are among the many factors that affect you as either a buyer or seller. You will also need to work with a variety of people--attorneys, lenders, home inspectors, appraisers, and insurance agents, to name a few. In short, buying and selling a home is not the simple matter it might appear.

Whether you are buying your first home or selling your tenth, you will want to make sure that you understand how the law affects your decisions. This chapter begins with questions related to buying and selling a home. It's a good idea to become familiar with the legal aspects of both the buying and selling side of the process. This is particularly true if it has been a while since you bought or sold a home.

Practices and laws change. You will want to be aware of how these changes affect your responsibilities as buyer or seller, as the case may be.

Remember, someone must be willing to buy a home before you can sell it, and vice versa. The sale will involve negotiation and will have legal consequences. Like any other contract negotiation, it's a good idea to understand the goals of both parties in the transaction.

## Elements of Real Estate

An ownership interest in real estate is illustrated by the following examples:

- the land and everything under it, including minerals and water;
- anything of value on the land such as crops or timber;
- the airspace over the land;
- improvements on the land such as buildings, for example a garage, barn, or fence.

Ownership of these elements may be separate or shared and may also be subject to legal claims or liens. (A lien is a claim against property representing an unpaid debt of the owner or an unpaid judgment entered against the owner by a court of law.)

Here's an example of how several different persons can have a legally recognized interest in the same real estate. A farmer might lease land owned by a school district. While the district owns the land, the farmer owns the crops he or she plants on the land. The district also might have sold mineral rights to the land to yet another person.

## Getting Started

**Q. Why is the purchase or sale of a home more complicated than buying or selling some other object, such as an expensive car?**

A. Taxes, financing considerations, and other factors affect the transactions involving such items as cars and boats. Under the law, however, these items are considered personal property as distinguished from real estate, also known as real property. Personal property and real estate have different characteristics and, as a general rule, the law treats each type of property differently.

Personal property is usually easily moved and, in many cases, is owned for a relatively short period of time. Possession of personal property also is a strong indicator of ownership. With real estate, on the other hand, the property cannot be moved and possession does not necessarily mean ownership. To illustrate, unless property is fenced in, it may be difficult to distinguish a neighbor's property from your own. And, while you may own real estate, you may not have possession of it, if, for example, you are renting the property to someone else.

Other factors that distinguish real estate from personal property are: many different people can have an interest in the same real property; foreclosing on real property is much more difficult than repossessing a car; and real estate is taxed differently than personal property.

**Q. What is a home?**
**A**. A home is more than a single-family dwelling built on an individual parcel of land. Townhouses, condominiums, and cooperatives are also homes. Each one of these types of homes has unique features, which are discussed later in this chapter.

**Q. Why should I buy a home?**
**A.** Most people buy a home because they want to own it and, thus, reduce their living costs as they get older. Other benefits include favorable tax considerations and more control over one's personal living environment than might be possible in the context of renting.

A common view of prospective homebuyers is to think of a home solely or, at least, primarily as an investment. This view, however, may be mistaken. There is no reason to assume that home prices will always rise. Home prices can fall, sometimes dramatically. And, depending on the home prices in your area of the country, renting may be far more economical than buying, particularly if the renter invests the difference between a mortgage payment and rental payment. Nonetheless, while the decision to buy a home is not just an investment decision, it may be wise to give it the same care.

**Q. What is a "buyer's market"?**
**A.** A buyer's market occurs when home sales are slow. Here are some of the ways to determine if the home market in your area is a buyer's market:

- Is it taking longer and longer to sell homes?
- Are foreclosures increasing?
- Are there large reductions in home prices?
- Has there been a decline in the number of building permits issued?
- Is unemployment increasing?

These factors indicate a "soft" market for home sales. A soft market tends to make sellers anxious and puts buyers in a stronger position than sellers. In a soft market, buyers have many homes to choose from and can demand special considerations from sellers.

**Q. What is a "seller's market"?**
**A.** The best time to sell your home is when homes are selling fast, there are few homes on the market, and the local economy is good. These are all characteristic of a seller's market and operate to move home prices upward. Sellers can and do demand high prices for their homes and often dictate the terms of the contract. In a seller's market, sellers often receive several competing offers and are in a position to sell quickly, perhaps in a matter of days or weeks.

If you are a potential seller in a seller's market, you're well situated to sell quickly and at your price. On the other hand, if you're a potential buyer in a seller's market, you'll want to be particularly careful that you don't rush into a decision that you may later regret. The best way to avoid this situation is to do your homework to ensure that you know what you want and what you can afford.

## Meeting the Players

### Q. Who is involved in a real estate transaction?

**A.** Although it's possible for a home to be bought and sold strictly between principals the buyer and seller this rarely happens today. Usually, a homebuyer will want to use the services of a real estate agent, an attorney, and a home inspector to check out the property. To obtain financing, homebuyers will consult the staff of one or more lending institutions. They also may consult with a financial planner or accountant about financing and an insurance agent to obtain homeowner's insurance.

While some sellers choose to sell their home without the services of a real estate agent, few would forego the services of an attorney once an purchase offer has been made. The seller also may turn to a financial planner or accountant for assistance in sorting out the tax consequences of selling.

### Q. What is the real estate agent's role in a home sale?

**A.** Typically, two real estate agents are involved in the sale of the home--the listing agent, with whom the seller lists the property, and the agent who shows the property to prospective buyers. For the buyer, it is important to keep in mind that both the listing agent and the agent showing properties are agents for seller. This means that both of these individuals work for and on behalf of the seller, not for the buyer. For a prospective buyer, this is an absolutely crucial point. It means, for example, that neither the listing agent nor the showing agent is permitted to disclose negative information to a buyer about the property, that is, information that is adverse to the seller's interest in selling the property.

As a buyer, you can avoid this information gap by hiring a buyer's agent. Because this individual represents you as the buyer, he or she will be required to disclose to you all relevant information--the bad as well as the good--about the property you are considering. In addition, a buyer's agent is there to negotiate the best possible purchase terms for you. A buyer's agent can be compensated from the total commission generated by a sale. Because this is an area of law that is rapidly changing, it is important for the buyer to have a knowledgeable attorney.

### Q. What is the role of the seller's agents?

A. The seller's listing agent helps determine the price of the home, suggests how to market the home, schedules advertising and open houses, shows the home to prospective buyers, and otherwise facilitates the sale. The showing agent works with buyers to show homes, contacts the listing agents, monitors the transaction, and, perhaps, helps to obtain financing. In most cases, the seller pays the sales commission, which is shared by the two agents.

### Q. When should I see an attorney about buying or selling a home?

A. It probably isn't necessary to consult a lawyer when you begin your search for a home. If you are a buyer, you probably will want your attorney to enter the process when you are ready to make an offer and, certainly, before you sign an offer to purchase. If you are a seller, you probably will want to consult an attorney early in the process and before signing a listing agreement with a real estate agent.

Buying and selling real estate almost always entails a contract. So, keep in mind that a typed or handwritten "letter or agreement" or "letter of understanding" signed by the parties will be binding if it meets the legal requirements of a contract. Don't sign something assuming it's not a contract and, therefore, not important. If something goes wrong, you don't want to discover too late that you've signed away important rights, failed to include important protections, or failed to receive what you expected. And beware of making oral promises. Many kinds of contracts don't have to be in writing to be valid. For example, if a seller verbally promised to update the electrical system, the buyer might be able to insist that the system be updated even if the matter doesn't arise in later negotiations. Legal advice will be much more helpful and less expensive before rather than after signing a purchase contract.

## Selecting a Real Estate Agent to Sell Your Home

**Q. Why should I list my home with a real estate agent?**
**A**. Experienced, reputable agents can be an invaluable asset to a seller. Real estate agents can offer advice on the suggested listing price, can give you an educated guess as to how long it may take to sell, and can offer valuable suggestions about how to best show your home. The major advantage, however, is that by listing with an agent, information about your home is immediately available to hundreds of other agents and buyers in your area through a Multiple Listing Service (MLS). MLS's often have sophisticated Internet websites that also enhance their value to you as a seller.

The agent with whom you sign a listing agreement is known as the listing agent. Most are members of the local MLS. Usually, within twenty-four hours of signing an agreement with an MLS agent, all MLS offices in your area will get a notice that your home is for sale. Because most homebuyers work with agents, this makes information about your home available immediately to a wide range of potential buyers.

**Q. How do I choose an agent to sell my home?**
**A**. Choosing an agent requires that you do your homework both on the qualifications of the real estate firm and the individual agent who will handle your sale. You may want to interview several agents from various local firms with the following in mind:

Is the firm a member of the National Association of Realtors, a national voluntary professional organization whose members exchange information and hold seminars in order to enhance their skills and improve the services provided to buyers and sellers of real estate?

Ask about sales for the last six months or one year. How do these figures compare to the sales figures of other real estate agencies?

How long do homes stay on the market?

How much and where does the agency advertise?

How close is the actual sale price to the listing price for homes sold over the past six months or year?

You also may want to know how familiar various firms and agents are with your area. How well do they know its schools, facilities, and public transportation? The answers to these and similar questions can help you select someone who is knowledgeable and interested in working for you.

Ask to see the Multiple Listing Book and compare the listings of various firms and agents. A large firm may also have a large number of listings. In this case, you will want assurance that the firm's agents have the time and energy to devote to an additional listing. On the other hand, a small office with fewer listings may be preferable, particularly if that means better, more personal service, and, therefore, a quicker sale at or near the desired price. This is another area where the power of the Internet may help smaller offices compete effectively with larger ones.

Once you've settled on an agency, interview potential agents. Ask them about their plans to market the home. Who do they think are the best potential buyers and how do they intend to target them? For example, retirees and young families are usually interested in different amenities. If your home is a natural fit with a particular age group, ask each prospective agent how he or she intends to show your home's advantages to its target market.

It's a good idea to avoid agents who want to list your home at a much higher price than other agents suggest. This may be just a device to get the listing. Within a few weeks, you may find yourself being pressured to reduce the price drastically.

Obviously, if the agency or MLS you are considering has a website, you should take a look at it and see if it is consistent with the image you want your sales representative to convey – including checking for the existence of "broken links" or other indications of poor quality.

Finally, make sure you are comfortable with the agent you choose. You should have confidence in your agent's ability. Your agent should be responsive to you by telling you who has expressed interest in the home and following up on the visits of potential buyers. For example, if many buyers have seen your home but no offers have been made, your agent should be trying to discover why. Is the price is too high? Is the decor too detracting? Should some minor repairs be made?

**Q. What is the listing agreement?**

A. Once signed, the listing agreement is a binding contract between the seller and the listing real estate firm. Its provisions include length of the listing period, commission rate and payment date, responsibilities of the firm and its agents, and who is responsible for the cost of advertising and the other costs associated with the home sale.

Read the listing agreement carefully. Do not hesitate to discuss any provisions you would like to change. To further protect your interests, resist signing an agreement until your attorney has reviewed and approved it, especially if you have requested changes, which have been resisted.

One final suggestion could save you lot of money. Before signing a listing agreement, let your friends and neighbors know you're selling. If any of them express an interest in buying, exclude them from the listing agreement. Then, if one of them ultimately buys the property, you will not be required to pay any commission at all.

**Different Types of Listing Agreements**

Most real estate firms prefer "exclusive right to sell" listings. These listings guarantee that a commission will be paid no matter who sells the property as long as it is sold during the time period covered by the listing.

Other types of listings include open listings and exclusive agency listings. Exclusive listings require that the listing agency work the property and actively promote its sale. In some states, an exclusive agency listing may be offered under which the seller can avoid paying commission if he or

she sells the house personally and not through an agent.
Most real estate agencies avoid open listings for residential sales because these listings allow sellers to list with other agencies or to sell the homes themselves. Under an open listing, the commission is paid only to the agency that finds the buyer.

Real estate firms that are members of a Multiple Listing Service combine their exclusive right to sell listings. This makes the home available to a wide variety of prospective buyers. The multiple listing agreement defines how the firms share the sales commission when the property is sold.

**Q. What fee will I pay on the sale of my home?**
A. Typically, real estate firms charge 5 to 7 percent of the sale price. On some higher-priced homes, a firm may charge the full commission on the first $100,000 or $200,000 and a lower percentage of any amount above that price. If the agency that lists the home is also the agency that sells it, the commission is shared by the agency and the individual agent who actually handled the sale. If the listing firm and the selling firm are different, the commission is shared by the two firms.

Some Internet-based firms have marketed themselves as low-commission realtors, advertising commissions as low as 2 percent. These services are so new that it is difficult to say how effective they be on behalf of buyers, but there is no reason not to investigate them.

Other less common forms of fee payments include the flat-fee method, in which a set fee is charged regardless of the home's price, and the net method. The latter, which is not favored and is illegal in some states, allows the broker to retain any amount of the selling price higher than an agreed sale price.

It is important to keep in mind that all commission agreements are negotiable, particularly in a seller's market.

**Q. What other terms in the listing agreement are negotiable?**
**A**. In theory, they all are. At the very least, the real estate agency should be willing to negotiate provisions on:

- The length of the contract. Many of the standard forms provide that the contract renews automatically. Many firms want a six-month listing. If you're in a hurry to sell your home, try to get a 60-day or 90-day listing.
- When the commission is earned. For example, this might occur only when the seller and buyer actually complete the sale, not when they sign the purchase agreement.
- Who will be responsible for the advertising expenses--the seller or the agency.

**Q. What legal protection do I have after signing a listing agreement?**
**A.** The listing agreement between a seller and a real estate firm carries a fiduciary responsibility. The firm and all of its agents act for the seller. They owe the seller the duties of care, obedience, accounting, loyalty, and notice.

**Q. Is the real estate agent liable if a potential buyer steals something from my home?**
**A.** Unless the agent showing your home was negligent, such as giving your house keys to a buyer, it's unlikely that he or she is responsible for thefts. Sellers should take the precaution of securing

small, valuable items. If your agent wants to use a lock box, which allows agents access to keys to your home, make sure the agent uses an electronic lock box. Unlike a manual lock box, an electronic lock box gives a printed record of all the agents who have shown the home. This deters any agent who might be unscrupulous.

**Q. What can I do if my real estate firm doesn't seem to be working very hard to sell my home?**
A. The housing market and the salability of your home are usually the chief problems when a home isn't selling. But, sometimes a firm or a particular agent is at fault for one reason or another. The best way to prevent this problem is to limit the term of the listing agreement to 90 days or less. If your home doesn't sell in that period of time, you're legally in a position to try another firm

You also may want to change firms if its agents don't return your telephone calls, don't keep you informed about the progress of your home sale, fail to schedule open houses, or, generally, appear uninterested in the sale. On the other hand, do not be unduly upset if you are presented with offers that seem unreasonably low. Your firm and its agents have an obligation to present you with all offers, even those that may seem insulting. Of course, you are not required to accept any offer presented. But, if you feel that undue pressure is being applied, it may be time for a change another reason to limit the length of a listing agreement.

## Selecting a Real Estate Agent to Help You Buy a Home

**Q. How does a buyer choose a real estate agent?**
**A.** Buyers have two options in selecting a real estate agent--they can work within the traditional system of listing and showing agents, both of whom represent and are paid by the seller, or they can hire a buyer's agent. If the second option is selected, the buyer may pay a fee to the agent for his or her services but the agent is responsible only to the buyer. In either case, you will want to look for an experienced agent familiar with the neighborhood that interests you. Interview several agents. Ask about the agent's sales for the last six months or a year; what was the average time needed to find homes for buyers; how many people have bought homes through them; and what kind of homes were sold. Ask the agent for the names of recent buyers who used his or her services and talk to them. You should be interested in how much time the agent spent with the buyers, how helpful he or she was during negotiations, and whether they were satisfied with the services provided.

Most people prefer to work with experienced real estate agents. Two years' experience is a good rule of thumb. Experience in handling closings is important as well. Obviously, if an agent has had two years' experience but has closed only two transactions during that time, the agent may be less experienced than one might like.

Also make sure that your agent has a good record of locating the types of homes specified by prospective buyers. For example, an agent who customarily has clients seeking $500,000 homes may not spend much time working for a client seeking a $100,000 home. Remember, unless a buyer is working with a buyer's agent, the agent's commission depends on the selling price of the home. Thus, an agent may spend more time with a client looking for a more expensive home.

Most importantly, before you start working with an agent, try to make decisions about the type of home you want, the amount you are willing to pay, and all the other important aspects of home buying. Shop open houses to get a feel for various neighborhoods and the style of home you are seeking.

Couples should be in agreement on how much they are going to spend and what type of home they want. Agents quickly become frustrated when a couple, or any two people buying a home together, seem to have different things in mind.

**Q. What is the fee relationship with a buyer's agent?**

**A.** Most buyers prefer to have their agent's fee paid by the seller to avoid additional costs. But, remember, this preference may commit the buyer to the traditional arrangement in which the listing and showing agents both work for the seller. Any buyer who is uncomfortable with this situation may enlist the help of a buyer's agent who will represent only the buyer.

A buyer's agent may require a nonrefundable fee, which will vary with the length of the home search and the extent of the services provided. If you choose this option, you will want to have a specific contract which, as with all written contracts, should be reviewed and approved by your lawyer. The contract should specify the services to be provided and the fees you will pay. If possible, avoid having the fee connected to the purchase price of the home. You do not want to provide an incentive for your agent to encourage a more expensive sale than you want. It may be possible, however, to specify in your purchase offer to the seller that your agent's fee will be paid by the seller at closing.

To find a buyer's broker, check the yellow pages of your telephone book or call the local real estate association for referrals.

**Q. What should I tell a real estate agent about my personal situation?**

**A.** If you have a buyer's agent, you may feel free to discuss all aspects of the sale. If you are working with a traditional agent, you may want to withhold certain information that could be useful to the seller. Remember, unless you have hired a buyer's agent, the showing agents you are working with actually represent the seller and are required to disclose all relevant information you might give to the seller.

Some people suggest that you disclose only home styles, prices, and amenities you want when working with a traditional agent. Personal information, such as the fact that your lease expires in two months or that you are willing to bid a higher price on a home, could be conveyed to the seller and ultimately hurt you in the negotiation process. You also can avoid discussing financial information that could be shared with a prospective seller by pre-qualifying for a loan.

**Some Advance Work Before You Buy**

If you are a prospective buyer, postpone offers and negotiations until you get a feel for various neighborhoods and the style of home you are seeking. Shopping open houses is an excellent way to do this. You also may want to be pre-qualified by a lender for a mortgage before you have a specific home in mind. This will require filling out financial statements, making the necessary financial disclosures, and having your credit record checked. This will give you a rough idea of how much money the lender will loan you and, thus, make it easier for you to pinpoint your price range.

## Buying and Selling Without an Agent

**Q. Are there advantages to selling my home without an agent?**
**A.** Yes. If you sell your home on your own, you will not have to pay a sales commission. While this may seem like a large savings, you must prepare yourself to assume all the responsibilities and costs associated with selling your home. These include advertising your home, spending time with potential buyers, and negotiating the sale.

Sellers familiar with local sales procedures and the real estate market may choose to sell their homes themselves, and there are various books that can help guide you through the process. Experts generally recommend that the seller hire both a lawyer and appraiser at the beginning of the process. An appraiser can help you establish a price for your home, and the attorney can help you with the legal issues, legal filings, and other necessary documentation.

**Q. Are there disadvantages to selling my home myself?**
**A.** There are three distinct disadvantages:

First, you will lack the many resources that real estate agents have to attract buyers. For example, your home will not be listed in your local Multiple Listing Service, so it is unlikely that many buyers will be shown your home.

Second, you will have to find time to show your home and talk to potential buyers and you will need to pay for all advertising.

Third, you will be directly involved in negotiating the sales price and other contract provisions.

At first glance, this last task may seem easy enough. However, many sales fall through without the mediating influence of a third person who has the experience to bring the buyer and seller together on a variety of issues. A professional real estate agent is on the alert for "deal-breakers," the kind of petty disagreements over small items that break up negotiations. If you've decided to sell on your own and also don't hire an attorney to negotiate for you, remember that settling on the terms and conditions of sale, including the price, is a give-and-take process. The fact that you love your renovated kitchen won't influence a potential buyer who intends to remodel anyway. If, after some reflection, you conclude that you lack the necessary experience, it may be wise to turn to a real estate agent or your attorney.

**Q. Are there advantages to buying a home directly from the owner?**
**A.** The major advantage of buying a For-Sale-By-Owner, or FSBO, home should be a lower purchase price because the seller will not be paying a commission on the sale. The truth is, however, that many FSBOs are priced as high as they would be if they were listed with a real estate firm. If you are interested in a FSBO, make sure you check the prices of comparable homes on the market as well as recent sales in the area.

**Q. How can I buy a foreclosed property?**
**A**. Foreclosed properties, called REOs (for Real Estate Owned by the lender), are owned by the lending institution or government agency that backed the mortgage. For one reason or another, the

owner has failed to make payments on the loan and the lender has "foreclosed" on the property. This means that the lender has taken title to the property and has become an owner seeking to sell.

Foreclosed properties include both single-family homes and condominiums. They are sold individually or through auctions. Some institutions advertise their lists of foreclosed properties; others deal strictly through real estate agents. Local real estate agents usually have a current list of the foreclosed homes in their area and can provide information on these properties.

Fannie Mae, the Federal National Mortgage Association, is a large government holder of mortgages. It offers a toll-free telephone number that buyers can call to get a list of foreclosed properties in their area. The number is (800) 553-4636; (800) 221-4636 in Maryland.

The Federal Housing Administration (FHA) usually sells its foreclosed properties through an auction announced in the classified sections of local newspapers. Potential buyers submit bids on the day of the auction, accompanied by a certified check for a percentage of the bid price. The highest bid usually gets the home.

## Disclosures

**Q. What is the seller obligated to disclose to the buyer?**

**A.** Disclosure is covered or not covered by state law. In other words, disclosure is treated differently among the states.

Some states require sellers to fill out a long form that explicitly asks about the seller's knowledge of various material defects that might be present in the home. For example, the form might ask the seller if he or she is aware of any material defects in the basement, leaks in the roof, unsafe concentrations of radon gas, etc. Another form might specifically question the condition of various parts of the home, such as the age of the roof, whether the home contained insulation, etc. In other states, sellers are not required to fill out disclosure forms but are required to disclose any defects in equipment that should be functioning at the time of sale such as the furnace, central air conditioning, the hot-water heater, etc.

Most states, however, do not require disclosure. Thus, in most states, the phrase caveat emptor - or buyer beware - prevails. Unless the buyer asks specific questions about defects, the seller is not required to disclose them even if he or she has specific knowledge that one or more substantial defect exists. As a result, any problems discovered by the new owner after the sale is closed are his or her problems. The moral? As a buyer, when in doubt, ask.

As a seller, you may want to disclose known material defects that seriously affect the home's value even if your state does not mandate such disclosure. This will help you avoid any future legal problems involved with the sale of your home. Many of the lawsuits filed about real-estate transactions involve the seller's misrepresentation or failure to disclose. Responding honestly to the buyer's questions and either repairing material defects or disclosing them is an effective way to avoid future litigation.

**Q. What are the real estate agent's obligations with respect to disclosure?**

**A.** The Code of Ethics of the National Association of Realtors governs real estate firms and agents who are members. This Code calls for disclosure of all known pertinent facts about the property. Members also will try to get all the buyer's questions answered. For example, if the buyer has spotted water damage in the basement, a member agent should ask the seller about it and tell the buyer about the cause of the problem.

## Working With an Attorney

### Q. How do I choose an attorney?

**A.** To choose an attorney, you will want to consider the following factors:

- Area of specialty: While it is not necessary to engage an attorney who specializes in real estate transactions, you will want an attorney who is familiar with the laws and practices regarding real estate in your area. It's a good idea to select an attorney who has had some recent experience in handling real estate matters.
- Office location: Your attorney will need to review agreements and papers and appear at the closing. Costs can be minimized with a local attorney.
- References: Friends and colleagues can be a good source for references. Ask them what they liked and didn't like about the attorneys with whom they worked.
- Comfort level: Real estate transactions can be very trying. You will want to hire an attorney who can smooth the way, not one who will create obstacles to your purchase or sale of a home.

State and local bar associations, the yellow pages, the Internet, and even your real estate agent can provide you with names of attorneys in your area. You'll want to interview the attorney, ask about his or her approach to a real estate transaction, discuss fees, and, generally, get an idea of whether or not this attorney is right for you. Along with advice and help in negotiations, your attorney will ensure that your interests are protected.

### Q. What will I have to pay for the lawyer's services?

**A.** Lawyer's fees vary from city to city and state to state. Fees for services normally are competitive, but the major factors in determining the fee will be the complexity of the transaction and the time required to complete it.

The estimated fee the lawyer discusses on your first visit usually is just that -- an estimate. The actual fee will depend on the type and amount of work involved. For example, if your attorney reviews a purchase offer only once or twice and the transaction moves forward without problems, the estimated fee should be close to the actual fee. If your attorney reviews several purchase offers or problems arise that require your attorney's intervention, the fee will be higher than the estimate. Attorneys who are familiar with real estate work should be able to give you a fairly accurate estimate of what their work will entail. If you run into problems, be sure to ask your attorney how much the extra time is affecting your final bill.

It may be helpful to remember that spending a bit more in attorney's fees so that potential problems are resolved before closing on your purchase may save you time and money later when you decide to sell the property. As the seller, it is likely that you will have to bear the cost of resolving these deferred problems before you're able to sell.

## Discuss Attorney's Fees in Advance

Most people feel uncomfortable discussing fees with professionals, but the only way to avoid surprises is to ask about fees during your first visit. Most professionals, including attorneys, expect to discuss fees. In fact, you might be wise to avoid working with an attorney who wants to postpone this discussion. Most attorneys charge by the hour, but some have an established fee for a real estate transaction.

## Setting a Price

### The Seller's View

**Q. How do I establish the price of my home?**
A. First of all, there is no "right" price. The value of your home is almost entirely dependent on what someone is willing to pay for it and how long you are willing to wait to find that person. Most sellers are not in the position to wait for the "ideal" buyer who will pay their "ideal" price. They want to find the optimum price at which their home will sell in a limited amount of time. To do this, they typically rely on comparisons with recently sold homes in the area. A real estate agent can help you by giving you a list of homes sold through the local Multiple Listing Service during the past year or so. You can also locate this information on the Internet at free websites such as http://realestate.yahoo.com/realestate/homevalues and http://www.domania.com/.

Once you have the basic sales information, you will need to match the features of the homes that have been sold to your own home. For example, if your home is a three-bedroom, two-bath ranch on a typical lot, your agent can point out sales prices of similar homes to determine a listing price. Try to limit your study to homes that are very similar to yours. If Victorian homes are prized in your area, even a Victorian needing work will be priced higher than other styles of homes of similar size.

To narrow the price further, you'll want to look at amenities sought by buyers. An attached garage, wood-burning fireplace, updated kitchen and baths, large lot, and spacious rooms are among the factors that generally increase a home's price. Conversely, expect the selling price to be lower if your home does not have these or similar amenities. Location is also a factor. Most buyers want good schools, good transportation, quiet neighborhoods, and little if any commercial activity. For some people, especially telecommuters, the availability of broadband transmission capacity in a given area could be an issue as well. The presence or absence of these factors all affect the selling price of your home.

Perhaps equally important are your reasons for selling and how long you can wait. Typically, the most interest is generated in the first few weeks a home is listed. If you want to sell your home fast, you'll want to price it so that it stands out among comparable homes on the market. If you're willing to wait (and remember that you'll be responsible for keeping the house in tip-top shape during the time it remains on the market), you can afford to price it above the competition. Sellers who try to hold out for the highest price, however, may find themselves reducing the price down the line. A house that has been on the market beyond the average marketing time generates little interest from buyers, even when the price is reduced dramatically. Most buyers will assume that the home has problems which they, understandably, want to avoid.

**Q. Should I consult a professional appraiser?**
**A.** Those few people who cannot find comparable homes may want to consult a professional appraiser before settling on a selling price. An appraisal is the fair market value of the home, so it should be close to the probable selling price. (Lenders usually order their own appraisals, often

paid for by the buyer, before approving a loan in order to ensure that the home is worth at least as much as the money being lent plus the buyer's down payment.) If you intend to sell your home on your own, without a real estate agent, an appraisal can provide valuable market information. Remember, however, that determining market value is not an exact science. A home is worth what someone will pay for it.

**Setting a Price**

**The Buyer's View**

**Can You Afford a Home?**

Consider the following factors to determine whether or not you can afford to purchase a home:

- How much money have you saved for a down payment?
- What is the status of your current income and expenses, such as car payments?
- Do you have a good credit history?
- What are the current interest rates on mortgages?
- What are your priorities and lifestyle?

**Q. How much home can I afford?**

**A.** This is one of the first things to consider when buying a home. First of all, knowing what you can afford will narrow your range so you will not waste time by looking at homes that cost too much. First-time buyers often become disappointed when they find the home of their dreams only to discover they cannot afford it.

Unless you are paying cash for a home, how much home you can afford depends on your income, your assets, your expenses and debts (including automobile or education loans and outstanding credit card balances), prevailing interest rates on mortgages, the cash needed for a down payment (10 to 20 percent of the purchase price), and closing costs (four to six percent of the purchase price).

**Q. Is there a formula for determining what I can afford?**

**A.** The prevailing rule says that a home should cost no more than 2.5 times your annual income. Thus, if your income is $50,000, your price limit would be $50,000 multiplied by 2.5, or $125,000. Typically, a lender expects you to pay no more than 28 percent of your gross income for housing, which includes the loan payment, property tax, home owner's insurance, and estimated utility costs. A lender will look at your debts. As a general rule, your total indebtedness, including monthly housing expenses, should not exceed 36 percent of your gross income.

Along with these guidelines, consider your lifestyle and priorities. If costly vacations, dining out, and entertainment are important to you, you may want to buy a less expensive home than the lender says you can afford. Many people, however, find that they are willing to give up some luxuries or even stretch their budget for the home they want.

Use the following worksheet to help calculate how much of a mortgage a lender would be willing to grant you. Remember that your total debts plus potential housing costs cannot exceed 36 percent of your gross income.

**Gross Monthly Income**

| | **Borrower** | **Co-Borrower** | **Total** |
|---|---|---|---|
| Base income | $______ | $________ | $_____ |
| Overtime | $______ | $________ | $_____ |
| Commissions | $______ | $________ | $_____ |
| Dividends/Interest | $______ | $________ | $_____ |
| Other | $______ | $________ | $_____ |
| Total | $______ | $________ | $_____ |

| **LIABILITIES:** | **Monthly Payments** | **Unpaid Balance** | **Months left to pay** |
|---|---|---|---|
| Automobile loans | $______ | $________ | _____ |
| Student loans | $______ | $________ | _____ |
| Personal loans | $______ | $________ | _____ |
| Credit cards | $______ | $________ | _____ |
| Other | $______ | $________ | _____ |
| **Total Monthly Payments** | $______ | $________ | _____ |

You can also easily locate Internet-based calculators that can automatically calculate these figures for you, though they may not all use the same values.

**Q. How much money will a lender provide for my home purchase?**
**A.** The total loan amount a lender will agree to provide is directly tied to your income and expenses. As a homeowner, you will be paying a monthly loan payment, along with the cost of insurance, property taxes, utilities, and maintenance. A lender looks for a solid history of income, employment, and credit. The lender also will review your expenses, including automobile payments, credit-card debt, education loans, child support, alimony, etc. If you are borrowing money for your down payment, the lender will

treat the interest payments on that loan as expenses.

**Q. What do I need for a down payment?**
**A.** Some people may qualify for special government-insured loans offered through the Federal Housing Administration (FHA) or Veterans' Administration (VA). The down payment needed for these loans is minimal. You can learn more about the programs at http://www.hud.gov/hudqa.html and http://www.homeloans.va.gov/. But, unless you can qualify, you will need a down payment equal to 20 percent of the purchase price to avoid paying the extra cost of Private Mortgage Insurance (PMI). With less than a 20-percent down payment, banking regulations require the buyer to carry PMI. This insures the lender against nonpayment of the difference between the customary down payment and the down payment actually paid. The charge for PMI may be as much as $50 or $60 per month, although the amount declines as the loan ages and you begin to pay off more of the principal.

**Q. Do I have to pay PMI for the life of the loan?**
**A.** No. The federal Homeowner Protection Act, which went into effect in the summer of 1999, helps consumers understand when they no longer need to pay private mortgage insurance—and thus save thousands of dollars over the length of a home loan.

Once you've build up at last 20% equity in the home—meaning that the money owed is less than 80% of the home's value—the lender is no longer at risk, and you can ask that the insurance be cancelled.

Under the new federal law, the lender *must* cancel the insurance when the mortgage balance falls below 78% of the home's original purchase price. However, because homes usually appreciate in value, you may be able to cancel it earlier—and federal law now requires the lender to tell you annually that you have the right to cancel if you meet certain criteria, such as rising home values increasing your equity.

Sometimes canceling PMI occurs as part of refinancing your loan, when it's clear that your home has increased in value to the point where the balance of your loan is less than 80 percent of the home's value. Be aware, however, that even outside of a refinancing situation the insurer will need written support from a certified appraiser as to the value of your home. The value assessed by a municipality for real estate tax purposes is seldom considered in evaluating home equity.

**Q. What will I need for closing costs?**
**A.** Along with the down payment, you will need between four and six percent of your loan amount to pay for closing costs, unless you are obtaining an FHA or VA loan. These costs include fees for your attorney, the lender's appraisal, lender's title insurance, title search, escrow deposits for property taxes and/or homeowner's insurance, as well as other expenses such as recording fees. If you are obtaining a loan, the law requires the lender to provide an estimate of these costs at the time you apply.

**Q. Is the seller responsible for any costs?**
**A.** Yes. The seller is responsible for paying the commission on the sale and must pay any taxes owed on the property, any money due his or her lender, and any liens that may be outstanding on the property. Usually, the seller is required to pay the cost of a title insurance policy for the buyer that insures the buyer against any defects in the title to the property.

The seller is sometimes required to pay "points." Points are the difference between prevailing interest rates and the rate the buyer is actually paying for his or her loan. For example, if the prevailing rate is eight percent and the actual rate being paid by the buyer is seven percent, the seller would pay one point, or one percent, of the amount of the buyer's loan.

**Q. How do interest rates affect my choice of a home?**
**A.** The interest you pay on your loan is part of the cost of owning a home. For example, a one percent increase in the interest rate on a $100,000 loan adds approximately $75 to your monthly loan payment over the life of a 30-year loan. Obviously, the lower the interest rate, the more you can afford to borrow. Be aware that home interest rates can change quickly. They usually are the last rates to decline when other interest rates are falling and are among the first to rise when other rates are climbing.

**Q. Should I pre-qualify for a loan?**
**A.** If you are unsure about your price range and, especially, if you are a first-time buyer, pre-qualifying for a loan can help smooth the purchase process. You will know exactly what you can afford and avoid the disappointment of being unable to buy the home you thought you could afford.

To pre-qualify for a loan, you will need to go through most of the steps entailed in applying for the actual loan. If you decide to pre-qualify, be sure to do so through a loan originator, that is, an actual lender. A mortgage broker, who brings together borrowers and lenders, cannot pre-qualify you for a loan.

**Q. I want to buy a home but my credit history is poor. Is there anything I can do?**
**A.** Yes, there are several options. First, before you attempt to buy, you will want to improve your credit record by paying your bills on time and by curtailing your borrowing.

Second, credit-reporting agencies can and do make mistakes. Major credit-reporting companies such as Equifax (http://www.equifax.com/), Trans Union (http://www.transunion.com/), and Experian (formerly TRW) (http://www.experian.com/experian_us.html) maintain computer files on your financial history. Credit-reporting agencies are authorized by law (see http://www.ftc.gov/os/statutes/2summary.htm) to disclose credit information to any person or organization with a legitimate business need for the information. On the other hand, the law also gives you the right to examine your own file. A summary of the report must be made available to you free of charge; however, there is a fee if you request a full credit report. If you believe your credit report is in error, you may challenge the report by explaining the error in writing. The information must be verified by the agency if it is kept in the report. If you discover inaccuracies and you can prove them, you can demand that the agency correct them within a reasonable period of time. If there are no errors, you have the right to include a letter of explanation of up to 100 words in your report. The agency must include your statement, or a clear and accurate summary of it, in all future reports. For example, if you were unable to pay a loan because you were out of work or suffered a severe illness, you could add this information to the report. You may want to consult your lawyer if you are unable to have your report changed as required by law. (See the "Consumer Credit" chapter for more details.) Credit-reporting agencies are allowed to retain negative information in your report for seven years and bankruptcy information for 10 years.

## Making an Offer: The Purchase Contract

**Q. How do I begin negotiations to buy a home?**

**A**. Negotiations are handled in various ways in different parts of the country. Typically, most transactions begin with negotiation over price, although other items such as date of possession may also be negotiated. The real estate agent will provide a form, usually called a contract to purchase or, simply, a real estate contract. In any case, this is a formal, written offer that conveys your terms to the seller. If you intend to have the home inspected, it should include an inspection rider; if you intend to apply for a mortgage, it should include a mortgage-contingency clause; if your attorney has not reviewed the contract, it should include an attorney-approval rider. In other words, it should cover the basics. Remember, once both parties sign this document, it is legally binding.

The offer should specify a date after which it is no longer valid. This may be as little as 24 hours from the time the seller or the seller's agent receives it. The offer to purchase also is usually valid only if both the buyer and seller sign it within a certain time period. As a general rule, an earnest money deposit of perhaps $500 or $1,000 accompanies the offer to purchase.

Often this is the start of negotiations. The offer to purchase may be passed back and forth between the buyer and seller before being accepted by both. Remember, however, that both parties must initial any changes agreed to during negotiations. Once you have agreed on terms, you will want to arrange for a home inspection and review the document with your attorney if, as noted above, you included these riders in your offer. In most cases, you will not want to apply for financing until the home inspection is completed and satisfactory.

In some areas, the purchase contract will include all provisions of the transaction; in other areas, another document will be drawn up by the buyer or the seller that covers such items as conveyance of title, provision for insurance, etc. In either case, you will want your attorney to make sure that the final document covers all aspects of the sale.

**Q. What is "earnest money"?**

**A.** When the buyer signs the offer to purchase, the buyer usually deposits a sum of money with the seller, the seller's real estate agent, or the seller's attorney. Your offer should specify that the earnest money deposit will be placed in an interest bearing account with the interest credited to the buyer.

Earnest money is not the same thing as the buyer's down payment although, if the sale goes through, it will be applied to the down payment. Earnest money symbolizes the buyer's commitment to take the necessary steps to complete the purchase, for example obtaining a loan. Thus, if a prospective buyer does little or nothing to complete the sale, he or she risks losing the earnest money deposit.

**Q. What is the purchase contract?**

**A** The purchase contract may be called a sales contract, real estate contract, purchase agreement, sales agreement, or purchase and sale agreement. Whatever it is called, it is a legal document that, when signed by both parties, is a legal contract that will govern the entire transaction. Before signing such a contract, you will want to review it carefully and have your attorney review it. Remember, once signed, you are obligated to fulfill your part of the contract.

**Q. What are the key provisions of the purchase contract?**

**A.** A purchase contract, in most cases, is a standard form contract with any necessary riders attached. The contract can include many provisions but should include the following items:

- the date of the contract;

- the purchase price of the home;
- amount of the down payment;
- all items to be included in the sale such as wall-to-wall carpeting, window treatments, appliances, or lighting fixtures;
- any items to be excluded from the sale such as an heirloom chandelier;
- the date when the deed will be transferred (or the closing date);
- a mortgage contingency clause if the buyer intends to apply for a loan. This states that the buyer intends to obtain a loan in a specified amount at a specified interest rate within a specified period of time. If the buyer is unable to obtain financing, the buyer may be released from his obligation. The seller usually allows the buyer 30 to 60 days to obtain a loan commitment.
- an inspection rider. This allows the buyer to have the home inspected, usually within 10 days of the date of the contract. If the inspection is unsatisfactory, the buyer ordinarily is released from the contract. However, the buyer may not be released if the contract allows the seller to make repairs and the repairs, when made, meet applicable standards of workmanship.
- an attorney-approval rider for both the buyer and the seller if either or both parties are signing the contract before it is reviewed by their respective attorneys;
- a legal description of the property;
- provision that the seller will provide good title to the home or what is sometimes called marketable title. Generally, the seller fulfills this obligation by providing an abstract of title, certificate of title, or a title insurance policy. This indicates that the seller has the authority to sell the home. In some states, for example Connecticut, the seller is required to deliver good title, which the buyer is expected to verify, at his or her own expense, by securing an abstract of title, certificate of title, or a title insurance policy. If the buyer encounters problems in establishing title, he or she can reject the title at closing.
- any restriction or limitations that could affect title;
- provision for paying utility bills, property taxes, and similar expenses through the closing date;
- provision for return of the buyer's earnest money deposit if the sale is not completed as, for example, when the buyer has been unable to obtain financing after reasonable or good faith efforts to do so;
- provision for taking possession. Along with a firm date for transferring possession from the seller to the buyer, the buyer should include a provision that requires the seller to pay a specific amount of rent per day if the seller does not leave the home by the agreed date. If the buyer and seller already know that possession will be delayed, the buyer may ask for a certain amount of money to be held in escrow at the closing to cover the rent for the expected time period.
- provision for a walk-through inspection within a specified period before the date of closing to allow the buyer to make sure conditions are as they should be according to the contract;
- terms of any escrow agreement;
- provision for who is responsible for maintaining insurance until the closing. The Uniform Vendor-Purchaser Risk of Loss Act applies in some states, which means that the seller assumes the risk of loss until either the transfer of title or possession. In some states, the common law requires the seller to assume this risk.
- signatures of the parties.

**The Walk-Through**

Many buyers like to inspect the property 24 hours or so before the closing to be sure it is in the same condition as it was when they signed the offer to purchase and to make sure that all property to be included in the sale remains in place. If something has been removed that was included in the sale under the terms of the purchase contract (such as a chandelier or appliance), the buyer should quickly notify his or her attorney or the seller's agent to see if the item will be returned before closing. Or, if agreeable to both parties, the buyer and seller may decide to reach a financial compromise instead.

**Q. What does an inspection rider provide?**

**A.** The inspection rider is a very important safeguard for the buyer. Two types are commonly used. The first gives the buyer the right to have the property inspected by a professional home inspector of the buyer's choice and at the buyer's expense. If the inspector finds defects, the buyer has the right to cancel the contract within a specified time. This type of rider raises some of the same issues as an unrestricted attorney-approval rider, since inspectors often find problems in homes. Thus, it can give buyers a few extra days to decide whether they want to follow through with the purchase.

The second type of inspection rider gives the seller time to either repair any problems uncovered by the inspection or agree to reduce the selling price contained in the contract by the cost of repairs. If a seller opts to do nothing, he or she must inform the buyer. Unless the buyer and seller can come to terms based on the buyer's inspection report, the buyer can cancel the contract and seek return of any earnest money previously paid.

Some people prefer the first inspection rider described above. Although it is open to occasional abuse by fickle buyers, its simplicity generates fewer back-and-forth discussions between the buyer and seller. If there is a serious problem and the seller really wants to sell, the parties usually can make a new deal.

Still, the choice is yours. Just remember that a real estate purchase contract is no different in principle than any other contract its terms are negotiable. By using properly drafted riders, you may quickly turn a form contract into one that deals with your personal concerns.

**Q. What is an attorney-approval rider?**

**A.** One common rider makes the purchase contract subject to approval by the buyer's and seller's respective attorneys within a short period of time, usually five to ten days after acceptance of the offer. In such cases, the standard contract form should include the phrase, "**Subject to the Approval of the Attorneys for the Parties Within Days**," with the number of days written in. Without such a condition in the contract, both the seller and the buyer are bound by the terms of the contract, which may be unclear or may differ from the parties' intent.

**Q. Does an attorney-approval rider give a buyer an "out" from the contract?**

**A.** Yes, like the inspection rider and the mortgage-contingency rider, it does allow a buyer to get out of a purchase contract. In fact, this is the reason some sellers will not accept such clauses.

An attorney-approval rider could avoid this pitfall by limiting the attorney's approval to legal matters as, for example, the state of the title. In addition, the rider could specify that a lawyer must state such disapproval in writing, with the seller having the option to correct the problem causing disapproval. This type of rider ensures that the contract need not bind the parties if their lawyers find an unsatisfactory provision in the small print. Meanwhile, the buyer and seller can sign the contract knowing that the other party may not easily back out of the contract because of a minor defect or objection.

**Q. What is a mortgage-contingency rider?**
**A.** This common provision allows the buyer a certain period of time to obtain a commitment for financing at a specified interest rate for a certain amount of money. It usually lasts for 30 to 60 days, depending on the average time needed to obtain a loan commitment.

The clause might read, for example, that the contract is contingent on the buyer obtaining approval for a 30-year mortgage for $100,000 at no more than eight percent interest within 45 days. For additional protection, the buyer might specify the type of loan he or she prefers, for example fixed or variable.

A mortgage-contingency rider provides critical protection to the buyer. For example, it allows the buyer to void the purchase contract without penalty in those cases in which the buyer is unable to obtain financing on the terms specified in the contract after making a reasonable or good faith effort to do so within the time provided. Because this type of clause favors the buyer, some real estate agents suggest that the buyer obtain "pre-qualification" from a lender, which gives the seller a degree of confidence that the buyer will not use the clause to void the contract unless some extraordinary circumstance arises.

The seller may refuse to agree to a mortgage-contingency rider. This can and does happen in a very hot seller's market, in which case, there is not much the buyer can do. But the absence of a mortgage-contingency rider might mean that the buyer will be forced to finance his or her home purchase at an unfavorable interest rate. Because of this risk, buyers should be cautious about signing a purchase contract that does not contain this clause.

**Q. May the seller refuse a mortgage-contingency rider or an inspection-contingency rider?**
**A.** Yes. Sellers are not required to accept any of the buyer-protection riders we've discussed. However, as a general rule, most sellers will accept these and similar riders unless they are selling in a very hot market.

Sellers should ensure that the proposed interest rate is reasonable, based on current rates, and also allow a limited but reasonable time for the mortgage commitment. Similarly, most sellers accept an inspection rider but should make sure that this rider expires relatively quickly say, ten days from signing. Unlike a mortgage commitment, there's no reason that an inspection can't be done within a week or so.

**Beware of Contingencies**
If an offer to purchase your home contains any contingency, you should include a time period for compliance, after which the offer expires. Otherwise, your home could be off the market for months, with no assurance that the sale will go through.

If a buyer extends an offer that is contingent on Veterans Administration financing, note that your acceptance of the offer could obligate you to pay points (percentages of the loan amount). In this case, you would want to place a limit on the points to be paid.

**Q. Should I allow the seller to remain in the home after closing?**

**A.** Most buyers want possession upon closing, because they will be paying the mortgage as of that date and will not want to pay for two residences. Sometimes, however, a buyer may allow the seller to remain for a specified period of time. For example, the seller may be moving to another state one month after the closing or, perhaps, the seller is waiting for a builder to finish a new home. If you find yourself in this situation, do not rely on oral promises or a statement about the date on which the seller promises to vacate the premises. Make sure your purchase contract states how long the seller may occupy the home after closing and specifies the rent owed to you for that period.

The contract also should specify any penalties in the event the seller does not move, does not pay rent after closing, or does any damage prior to vacating the premises. Sometimes your attorney will prepare a separate lease, or use and occupancy agreement, to cover these and similar contingencies.

**Q. What happens to my earnest money deposit if we do not complete the sale?**
**A.** Generally, the purchase contract allows the buyer to get back his or her earnest money and any interest earned on it, unless the buyer has in some way violated the contract. If the seller refuses to return the deposit, the buyer may have to sue the seller for return of the deposit.

**Q. Can a buyer sue a seller for backing out of the contract?**
**A.** Yes, if the seller violates the terms of the contract or refuses to close the sale, the buyer can sue to force the seller to complete the transaction. It also is possible for the buyer to sue for damages. For example, a buyer who had incurred costs for obtaining a mortgage or costs for renting temporary housing caused because the seller broke the contract would have a case for damages.

## Home Inspections

**Q. What is involved in a home inspection?**
**A.** A professional home inspection can vary among localities, but, generally, the aim is to discover any problems with the home that might not be readily apparent. Most inspectors check to make sure there are no material defects or problems with such items as the electrical, plumbing, heating, and air-conditioning systems. The inspector also may check for termites, the age of the roof and when it might need replacement, condition of the basic structure including the foundation, evidence of basement seepage, and other problems. Some inspectors check for radon concentrations, lead paint, or other environmental hazards.

A professional inspection should not be alarmist. The idea is to point out problems without exaggerating defects. It's a good idea for the buyer to accompany the inspector during the inspection. In this way, the buyer is able to ask questions and to get an idea of the cost of any repairs that are necessary or advisable. Further, the inspector also may suggest ways to better insulate the home or offer maintenance suggestions that can prolong the life of operating systems such as heating and air conditioning.

Most buyers do not want to pay for an inspection until they have settled on other terms with the seller. To do this, the buyer often uses an inspection rider to provide that the offer to buy is contingent on a favorable inspection of the home.

### What to Expect from the Home Inspection

The buyer normally hires a contractor or home inspector to check out the home. The inspector does not care about cosmetic problems that the buyer could easily see such as peeling wallpaper, torn carpet, or flaking paint. The inspector shows an interest only in the structural and mechanical aspects of the home, looking for problems that a buyer is unlikely to notice. These include termite damage, foundation and structural problems, and the age and condition of the roof. The inspector also will examine the condition of the chimney, storm windows, gutters, electrical wiring, and plumbing.

If possible, you will want to accompany the inspector and take notes. Some inspectors charge a smaller fee if the potential buyer does not require a written report. However, be aware that a written report may be required if the buyer intends to cancel the purchase contract because of defects revealed by the inspection.

Inspection fees vary based on such factors as the size and type of building inspected. As a general rule, anticipate a fee somewhere between $250 and $500.

**Q. What should the buyer do if the inspection uncovers material and costly defects?**
**A.** There are several choices. Although the inspection rider may simply allow you to walk away from the purchase, this may not be desirable, especially if the home has other qualities you are seeking. One alternative is to negotiate with the seller to lower the previously agreed-upon price. For example, if the seller was unaware that the furnace was corroded and in need of replacement or that there was rotting timber that needed replacement, he or she may be amenable to reducing the purchase price by the estimated cost of repairs. Alternatively, the price could remain the same with the seller repairing the problem at his or her expense.

While some buyers use an inspection to extract further concessions from the seller, it's unlikely that a seller is going to agree to reduce the cost of a home to reflect the cost of correcting minor problems such as a repairing a porcelain chip or replacing peeling wallpaper or worn carpeting. A seller facing a long list of minor repairs the buyer wants made before closing may want to end negotiations unless he or she has no other alternative than selling the home to this particular buyer.

**Q. What can the seller do if he or she disagrees with an inspection report?**
**A**. Your response as a seller to a negative inspection report will depend on the buyer. Sometimes, such a report may scare away the buyer. If you strongly disagree with the inspection, you may want to obtain your own written inspection, copies of which you can provide to prospective buyers.

One response to a negative inspection report is negotiating a resolution to the problems discovered by the inspector. For example, if the inspector discovers that your home has inadequate or outdated electrical wiring, the seller may offer to have the wiring updated or to reduce the price by an agreed-upon sum to cover the buyer's costs of updating the wiring.

As a seller, you should be aware that some homebuyers will take any problems and turn them into major roadblocks, hoping to force an anxious seller to reduce the selling price. If you find yourself dealing with such a buyer, you may be better off to simply refuse further negotiations, let the offer expire, return the buyer's deposit, and place the home back on the market. But, if you believe that the buyer's complaints are without merit, you could insist on compliance with the purchase contract; this, however, could lead to a lawsuit.

**Q. Should a seller get a home inspection?**

**A.** If you are worried about possible problems in your home, it may be a good idea to pay for an inspection before you put your house up for sale. The inspection would allow you to take a look at your home from a buyer's perspective and allow you time to fix any problems or reduce your asking price.

Most buyers will probably want to pay for their own inspections. If you do share your pre-sale inspection report with a buyer, be sure to provide the entire report; otherwise, a court might construe that you intentionally withheld negative information.

### Financing a Home Purchase

**Q. How do I finance the purchase of a home?**
**A.** Few people have enough cash to buy a home outright--most need to finance their purchase by borrowing money. Usually, this is done by contracting with a financial institution such as a bank or savings and loan. The buyer agrees to pay interest on the money borrowed and the lender retains a lien (mortgage) on the property. In some cases, buyers are able to obtain seller financing in which the buyer pays interest to the seller and the seller retains a lien on the property. In other cases, a buyer is able to assume the seller's mortgage. That is, the buyer pays the difference between what is owed on the mortgage and the purchase price and takes over the seller's payments on the mortgage. (Note that this can occur only if provisions in the mortgage state specifically that it is assumable. Most mortgages written today include a due-on-sale clause that prohibits assumption of a mortgage.) In the event that a buyer can assume the seller's mortgage, the seller should remember that he or she remains liable to pay the mortgage unless the seller's lender specifically and in writing releases the seller from this obligation.

Today, a wide variety of financing mechanisms exist to finance a purchase. Some buyers may qualify for federally insured loans that permit smaller-than-normal down payments and lower interest rates than prevailing market rates.

**Q. How do lenders determine the interest rate?**
**A.** Interest rates for home loans are determined by the overall market in interest rates. Short-term rates, such as those paid on a six-month certificate of deposit, are usually the lowest. The highest rates are usually paid on unsecured loans, such as credit-card debt.

Home loan rates are very interest-sensitive; that is, when rates are declining, they are usually the last to be lowered, but when rates are rising, they are among the first to go up. This is because most home loans are made at a fixed rate over a fairly long term fifteen to thirty years during which time interest rates may increase substantially. Thus, lenders attempt to protect themselves from making too many long-term loans at low rates by taking a go-slow approach to reducing interest rates.

Interest rates for home loans fell dramatically from the highs of the early 1980s through most of the 90s. These lower rates have made home buying much more affordable. These rates can and will rise very quickly, however, if the prevailing trend changes and other interest rates begin to escalate. Present mortgage rates are easy to find on the Internet.

Anyone interested in an adjustable-rate mortgage, in which the interest rate changes during the life of the mortgage, should be aware that rates could climb rapidly and significantly increase the amount of the mortgage payments.

**Q. Does it pay to shop around for an interest rate?**
**A.** Yes. Lenders are very competitive. Interest rates and fees charged to originate a loan vary among

financial institutions. Typically, lenders charge the prospective buyer a fee to obtain a loan--this may be a flat fee or a percentage of the loan (one point is 1 percent of the loan amount).

One lender might offer an 8 percent, thirty-year fixed-rate loan with a flat fee of two hundred dollars. A second lender might offer a 7 percent, thirty-year fixed-rate loan with two points. A third lender might offer the loan without points or other fees but at a higher interest rate. This could be advantageous for a buyer who wants to put as much as possible into his or her down payment. Another buyer might prefer to pay higher points in exchange for a lower interest rate because the IRS allows points to be deducted against taxable income in the year the home is purchased.

**Shopping for Interest Rates**

You can and should shop for rates. As noted earlier, a 1- percent change in the interest rate on a $100,000 thirty-year fixed-rate loan could mean a seventy-five dollar difference in each monthly loan payment. The market is competitive. Lending institutions often will offer lower-than-market rates to attract borrowers.

There are several ways to shop for home loans. By far the easiest way to do this today is via the Internet, which is awash in interest rate information and mortgage brokers that will compete with each other to get you the best deal. Most websites related to mortgages also feature useful mortgage and home finance calculators. Search for "mortgage" and the name of the state where you are planning to buy for the first cut of these websites.

In addition, many metropolitan newspapers carry a weekly listing or sampling of rates offered in their areas. Rates can change very rapidly, which might mean that these listings may not be up to the minute. However, they can give you a good general idea of the market. In addition, several reporting services offer details on a variety of loan types and interest rates available from area institutions. Prices of these services range from ten to thirty dollars. Therefore, you may want to use a reporting service only when you are ready to apply for a loan. You also can call a real estate mortgage broker for information.

**Q. What is a land contract?**

**A.** A land contract is a common form of seller financing. The buyer pays the seller a down payment and agrees to make payments of interest and principal on the outstanding balance. In other words, the seller acts as a lending institution. Typically, the buyer takes possession of the property, but the seller retains the right to sue to recover the property if the buyer fails to fulfill his or her contractual obligations. As a general rule, legal title is not transferred to the buyer until all payments are made. Evidence of title, such as a warranty deed, usually is placed with a third person who holds the document until payment is completed, at which time he or she delivers it to the buyer, who should make sure that it is recorded in the proper local records office, for example, the recorder's office or county clerk's office. Once again, because a contract is involved, attorneys for both parties should be consulted to review its terms. Finally, since title is not transferred until full payment has been made, the contract should be recorded by the buyer with the recorder's or county clerk's office so that his or her interest in the property is protected until payment is made in full.

**Q. I want to buy another home, but I haven't sold my present home yet. Is there a way to finance until I can sell?**
**A.** Many lenders offer a bridge loan to allow a buyer to buy another home while waiting to sell his or her present home. You can obtain a bridge loan if you have a contract to sell your present home and you need the loan only for a specific, relatively short, period of time.

It is much more difficult to obtain a bridge loan if you do not have a buyer for your home and, thus, need to pay loans on two properties. Bridge loans usually carry a higher interest than a traditional home loan.

**Q. What is a fixed-rate loan?**
**A.** Most prospective buyers prefer a fixed-rate loan because the interest rate cannot be increased during the term of the loan, typically 15, 20, or 30 years. Under a fixed-rate loan, buyers can feel more comfortable knowing the exact amount of their monthly loan payments throughout the life of the loan.

Although the interest rate does not change, the way in which the payment is divided changes over the loan period. At the beginning, most of the payment is applied to the interest owed to the lender. As the loan progresses, more money is applied to the principal, the face amount of the loan. This also means that the amount of interest deductible for a federal income tax purposes will decline over the life of the loan.

The major difference between a fifteen-or twenty-year fixed-rate loan, on the one hand, and a thirty-year fixed-rate loan, on the other, is that the borrower will pay higher monthly payments on the shorter term loans than would be the case with a thirty-year loan for the same amount of money. Over the life of the loan, however, the buyer pays far less interest, because he or she is using the money for a shorter period of time.

**Q. What is an adjustable-rate loan?**
**A.** Adjustable-rate loans vary, but they all share one common factor--some aspect of the terms of the loan can be changed by the lender during the life of the loan. The specific type of adjustable mortgage is tied to whether the change is in the rate of interest, amount of payment, or length of time for repayment.

If you are considering applying for any type of adjustable-rate loan, make sure you understand exactly how the mortgage works, including the spread between the interest rate and the index to which the rate is tied; how often the loan can be adjusted; the maximum allowable increase (or decrease) each year as well as over the life of the loan.

Adjustable-rate loans include:

- Adjustable-rate mortgages (ARMs). These loans typically offer a lower-than-market interest rate in the first year. The future interest rate, usually adjusted annually, is tied to an index that may move up or down but is not under the control of the lender. The index might be the one-year Treasury bill (the T-bill rate) or some other rate that reflects the changes in interest rates.

  Note that the rate is tied to the index it is not the same as the index. The mortgage might specify, for example, that the future rate would be two points above the average T-bill rate. Typically, ARMs are adjusted once a year on the anniversary date of the loan. Additionally, ARMs usually have a provision for a cap, that is, the highest rate that could be charged. Some may include a minimum rate as well.

- Convertible ARMs. These loans usually offer a conversion factor that allows the borrower to convert to a fixed-rate loan at a specified period of time. For example, a convertible ARM could allow the borrower the option to convert to a fixed-rate loan once a year over the first five years of the loan. The interest rate to be paid would also be tied to an index.

- Renegotiable-rate mortgage (rollover). These loans typically set the interest rate and monthly payments for several years and then allow both the rate and principal payments to be changed depending on general market conditions. If the new terms are unacceptable to you, you can pay the loan in full or refinance at prevailing interest rates.

- Graduated payment mortgage (GPM). With this type of loan, typically sought by young buyers who expect their incomes to rise, the payments are low in the first couple of years and gradually set to rise for five to ten years.

- Shared-appreciation mortgage. These loans offer lower-than-market rates of interest and low payments in exchange for a lender's share in appreciation of the property. Usually, the lender will require that its share of equity will be turned over when the home is sold or at a specified date set out in the loan agreement.

**Q. What is a balloon loan?**
**A.** With a balloon loan, the buyer is expected to pay off the loan completely within a short period of time, usually in three, five, or seven years. In other words, this is a short-term loan. The interest rate can be fixed or variable, but in all cases the unpaid balance on the principal is due at the time specified. The borrower must either refinance or sell the home to pay off the loan.

To attract buyers, builders often offer balloon loans during periods of high-interest rates when home sales are sluggish. In most cases, the interest rate will be lower than prevailing home loan rates. However, if interest rates are high when full payment is due, refinancing may not be possible. The balloon will "burst," resulting in foreclosure and loss of the home.

**Q. How do FHA and VA loans work?**
**A.** The Federal Housing Administration (FHA) offers insured low-interest loans made by the federal government and approved lending institutions. The cost for this loan insurance varies and is charged at the closing. While FHA loans are not available through all lenders, in some areas they are very popular and can make the difference in obtaining a loan for some potential buyers who do not qualify for conventional financing. The Veterans Administration (VA) offers government-insured loans to qualified veterans.

Income qualifications, required down payments, and the maximum allowable loans under these plans are changed periodically. Currently, the maximum FHA loan is about $220,000 in certain high-priced areas of the country.

For first-time home buyers, the federal government as well as state governments offer loan assistance to prospective buyers who meet eligibility requirements. For current information about these loan programs, consult local FHA and VA offices as well as your real estate agent.

**Q. What are jumbo loans?**

**A.** Jumbo loans exceed the amount of loans allowed by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Association (Freddie Mac), the federal agencies that oversee the secondary market in mortgage loans. The maximum mortgage amount for Fannie Mae and Freddie Mac can go up or down and presently stands at $203,150.

Fannie Mae and Freddie Mac are not loan guarantors, they are purchasers from primary lenders. Fannie Mae and Freddie Mac purchase loans from lenders and then resell the loans to other organizations such as insurance companies and banks. On the other hand, FHA and VA are loan guarantors. Many FHA and VA loans are purchased by Fannie Mae and Freddie Mac.

Interest rates on jumbo loans typically are slightly higher than other loans, but this isn't always the case. Lenders who intend to keep the mortgage in their portfolio tend to offer competitive interest rates.

**Q. What is negative amortization?**

**A.** In a typical home loan, the borrower pays off the interest and principal in installments. This is known as amortization because the debt is gradually reduced.

Negative amortization can occur when the installment payments do not cover all the interest due each month. This unpaid interest is added on to the principal that is owed, resulting in a debt that increases, rather than decreases.

The worst problem with negative amortization occurs in a market in which home values decrease. Then the size of your debt could increase to the point where it would exceed the equity in your home. Sadly, you could sell your home and not be able to repay what you owe.

Most professionals advise buyers to avoid a negatively amortized loan. The risks outweigh the benefits of the lower payments. It may be better to postpone buying a home until you can make higher payments or investigate a lower-cost loan from the FHA or VA.

## Applying for a Home Loan

**Q. How do I apply for a loan?**

**A.** Obtaining a loan requires a lot of paperwork and sometimes a lot of fortitude. The savings and loan scandals and the large number of foreclosures in recent years have forced lenders to take a much more critical look at their lending practices. While you won't be asked for your blood type, it's a good bet that you will be asked about everything in your financial history. Loan applications vary, but most require the following information:

- Employment history, salary history, and proof of employment. This may require you to obtain a letter from your employer as well as recent wage stubs. You may be asked for copies of your federal tax returns for recent years or copies of your W-2 statements. While there is no law that requires you to submit this information, the lender has the right to turn down your request for a loan if you refuse to supply pertinent information. If you are using other income to qualify for the loan, such as income from property, child support, or income from investments, you will need to provide proof of these as well.
- Credit history. This includes all the account numbers of all credit cards that you currently have. You may be asked to submit year-end statements that reveal how much interest was paid on these cards during the preceding year.
- Outstanding debts. These include automobile loans, alimony, child support payments, credit-card

debt, etc.

- Assets. These include the value of any items you own, such as automobiles, rental property, stocks, bonds, cash, savings accounts, IRAs, retirement accounts, mutual funds, etc.
- Source of your down payment. The lender will want to make sure that you are not borrowing money to make your down payment. (If you are borrowing money and will be making interest payments, this will be taken into consideration.) If you are receiving a gift from relatives for a down payment, the lender will expect proof that the gift will be forthcoming.

**Q. How long does it take to get a home loan application approved?**
**A.** When you apply for the loan, ask the lender how long the approval process is expected to take. It can take anywhere from twenty-four hours to three months, depending on a variety of factors. If you have included a mortgage-contingency clause in your purchase contract, be sure to inform your lender when you apply for the loan of the date the clause expires. Usually, your lender will work with you to meet the deadline or alert you that approval will take more time. At that point, you may be able to get an extension from the seller on the contingency.

Once your loan is approved, the lender will provide you with a loan commitment, which agrees to lend a specific amount of money on specific terms. A copy of this commitment can be provided to the seller to assure him or her that your financing is in place.

**Q. What is the lender obligated to tell me about the loan?**
**A.** Federal law requires that the lender reveal all costs of the loan, including such items as appraisal fees, escrow fees, fees for the lender's attorney, service charges, and, of course, the interest rate on the loan. The interest rate must be presented as the annual percentage rate or APR. This is calculated by including the interest to be paid along with other fees, such as any points paid to originate the loan.

Under the terms of the federal Truth in Lending Act, lenders are required to use the same methods for computing the cost of credit and disclosing credit terms. This requirement allows borrowers to fairly compare the costs and terms of home loans. It is a much more reliable method for comparing costs than the advertised rate of the loan.

The federal Equal Credit Opportunity Act prohibits discrimination in any aspect of a home loan transaction on the basis of race, religion, age, color, national origin, receipt of public assistance funds, sex, marital status, or the exercise of any right under the Consumer Credit Protection Act. If a lender rejects your loan application, you are entitled to know the specific reasons in writing.

Lenders are also prohibited from doing anything that discourages you from obtaining credit, including taking an excessively long time to process your application, being unwilling to discuss available types of loans, or failing to provide information required to apply for a loan. If you suspect that you are being discriminated against in applying for a loan, a complaint can be filed with the Office of Fair Housing and Equal Opportunity of the Department of Housing and Urban Development, Room 5204, Washington, D.C. 20410-2000, or online at http://www.hud.gov/complaints.html. You also may file a complaint with the Federal Reserve Board of Governors or the District Reserve Bank serving your area. Check the government pages of the telephone book for their addresses or file directly with the Federal Reserve at http://www.federalreserve.gov/pubs/complaints/. When making a complaint, be sure to include your name and address along with name and address of the person or financial institution you are filing the complaint against, a short description of the alleged violation, and the date of the alleged violation.

**Q. What documents must I sign to secure the loan?**
**A.** The borrower will sign many documents; however, two documents are essential to completing the loan transaction. One is a promissory note agreeing to repay the lender the money borrowed plus interest. This promissory note is a legally enforceable contract. The borrower may be responsible for repaying the note even if he or she later sells the home to a buyer who assumes the mortgage. The second document is a mortgage, or deed of trust, and gives the lender a security interest in the real estate. Having a security interest in your home means the lender may enforce repayment of the loan by selling the property. If you do not pay, you could lose your home.

## Key Provisions of the Mortgage

**Q. What is an assumable mortgage?**
**A.** An assumable mortgage allows you to transfer your existing mortgage debt to the buyer of your home. The new owner would "assume" (take over) your mortgage and pay you the difference between the amount you still owe and the agreed-upon sale price. Most lenders no longer allow buyers to assume mortgages. They generally insist on a "due-on-sale" clause under which the buyer must get a new mortgage. Some assumable mortgages remain on the market, however. If the interest rate is attractive, you should explore these. Some lenders will allow a mortgage to be assumed by charging a fee or adjusting the interest rate on the assumed mortgage.

Prior to assuming a mortgage, a prospective homebuyer should obtain a written statement from the original lender stating:

- the amount still owed on the loan;
- the rate of interest for the remainder of the loan;
- the length of the repayment period remaining; and
- when the lender has the right to call in the loan (order payment of the entire amount) or change any of the existing terms.

Before the loan can be assumed, the lender may require the buyer to go through the lender's normal loan-application process so that the lender is sure the buyer is credit-worthy. The particular form of loan-assumption agreement will vary depending upon your location.

### Insuring Your Home Loan

Several types of insurance contracts pay your home loan if you die or become disabled. This type of insurance establishes an annual premium cost for the life of your loan. Because your loan declines as you pay down the principal (main amount of the loan), the amount of insurance coverage decreases each year, although the cost stays the same. In most cases, a term life insurance policy that can be used to pay off the loan in the event of your death is preferable to a mortgage insurance policy. Term life insurance is less expensive and offers better protection and more flexibility. All insurance products are relatively complicated. You may want to consult a financial professional or an attorney to check these policies before you buy one.

Because temporary or permanent disability can threaten your ability to pay your home loan, you may also want to consider buying a disability policy or participating in any disability insurance offered by your employer. Disability insurance can add to your peace of mind and that of your lender.

**Q. What is a due-on-sale clause?**
**A.** Most but not all due-on-sale clause which requires that the seller pay his or her loan in its entirety at the time the sale is closed. This means that the buyer cannot assume the seller's mortgage. Federal law has replaced state law in this area and due-on-sale clauses are enforceable.

**Q. What is a late-payment charge?**
**A.** Most home loans include a late-payment charge. The lender charges it to the borrower if the monthly mortgage payment is late. These charges can be very expensive. You'll want to make sure you know when your loan payment is due and allow enough time for it to arrive by the due date if you are mailing your payment

**Q. What is a prepayment penalty?**
**A.** Although illegal in some states, where permitted, home loans include a prepayment penalty. This is a charge imposed if the borrower pays off the loan ahead of schedule. This penalty is usually one or two percent of the loan. It is not unusual for home loans to include a prepayment penalty for the first few years; however, you should avoid mortgages that require a prepayment penalty beyond the third year.

**Buying a Home from a Builder**

**Q. Are there any special considerations when you are buying a home from a builder?**
**A.** A buyer purchasing a new home from a builder may or may not work through an agent. If you are not working with an agent, you may want to consult your lawyer to ensure that the purchase contract with the builder contains no surprises. In addition, you may want to consider having the finished structure inspected notwithstanding its newness. Remember, it's the quality of the construction, not its newness, that is important. An independent inspection can give you this assurance.

If you are contracting with a builder on a home that is not built or finished, you will want to make sure you will get what you think you are buying. For example, model homes typically include options, rather than standard features. Along with superior windows and siding, these could include better-quality kitchen cabinets, higher-grade carpeting, and more expensive lighting fixtures. Make sure that the builder provides you with a complete list of standard and optional features. If you are choosing options, make sure the purchase contract includes the specific cost of all options.

You will want to know other facts as well, such as the type and extent of any landscaping to be provided by the builder, known plans for the development of surrounding property, and the exact provisions of any warranty from the builder. If possible, you will want a warranty that is insured by an insurance company, rather than a warranty guaranteed only by the builder. Finally, the builder should provide you with evidence that his or her subcontractor's and material suppliers have waived any liens they might have against the property in the event the builder does not pay them for their work.

Specified dates for completion and occupancy should be included if the home is not yet built. You can provide for a penalty or for the right to cancel the contract if the builder exceeds these dates.

**The Title**

**Q. How do you obtain title to a property?**

**A.** Title to real estate consists of ownership of and the right to use the property. A title search will help the buyer find out what rights the seller has, including the authority to sell.

Unlike personal property, title to which may pass when the property changes hands, the rights to the various components of real estate may be owned, leased, or affected by claims or liens of different people. Among the many possible existing claims against real estate are: mineral rights; unpaid mortgages; liens of workers such as plumbers and liens of persons supplying construction material, both of which are known as mechanic's liens; outstanding court judgments; liens for unpaid taxes; and power-line easements, road rights-of-way and drainage easements.

Second, there may be questions about whether the seller can convey good title. A title search reveals this by discovering whether there are any breaks in the chain of title all the way back to the original owner. Gaps in the property's chain of title might make it impossible for the person who appears to be the seller to transfer good title to a prospective buyer.

An attorney, an abstract company, or a title company can conduct a title search of the public records of all deeds, mortgages, and other instruments that affect the seller's title to the real estate in question. The results of this search are usually compiled in an "abstract of title" or title insurance commitment to help the buyer determine who has actual title to the property, whether there are any restrictive covenants that could limit the use of the property, and whether any individuals or institutions have some interest or claim on it.

Government regulations, such as zoning or occupancy laws, also affect your use of the real estate. As a buyer, you will want to know how these restrictions might affect your use of the property.

There also may be subdivision covenants or common-ownership association bylaws that restrict the use you can make of your property. They could, for example, restrict you from using your property to store liquor, prevent you from renting your home, or place architectural controls on your property. Covenants written long ago many contain restrictions that are unenforceable today, such as prohibitions against selling your home to member of certain racial or ethnic groups. These can be ignored but covenants that are enforceable should be understood. Ask for a copy of these restrictions before you make an offer to purchase. Your attorney can help you decide if a covenant is legal and binding.

Any defects in the title should be corrected before the closing. Typically, the seller is responsible for remedying title defects. For these reasons, even in areas of the country where the buyer receives a title insurance policy, buyers and sellers may want the advice of a lawyer. Buyers and sellers should check to see what types of title insurance policies are available, their costs, reliability, and so forth.

**Q. What is title insurance?**

**A.** An owner's title insurance policy is an agreement that the title insurance company will defend against and pay losses involved in any claim covered by the policy's terms, as long as the buyer or the buyer's heirs own an interest in the property. The policy will cover a prior owner if, in selling the property, he or she gave a deed containing certain warranties with respect to title.

The policy provides two types of coverage. First, if someone contests the buyer's insured title in a legal action, the insurer will defend the title at no expense to the buyer. Second, if there is a defect in the title that cannot be eliminated, title insurance provides financial indemnity to protect the buyer from loss due to the defect, up to the amount of the policy.

Title insurance is available from title companies and, in some states, from lawyers' groups. Title insurance varies in price in different parts of the country. The extent of the protection is only as broad as the language of the policy itself. The buyer's attorney can help gauge whether the policy is adequate.

Lenders usually require buyers to obtain title insurance that protects only the lender. This is known as a lender's title policy. The buyer may have to pay for additional title insurance to protect his or her interests or negotiate with the seller to purchase such a policy. For more on title insurance, see chapter 5 on owning a home.

An additional consideration is what legal title to hold your property in (joint tenancy, tenancy by the entirety, etc.) This topic is discussed fully in the chapter on home ownership.

**The Closing**

**Q. What happens at the closing?**

**A.** The real estate closing is the final stage in the process of buying a home. The closing is a meeting at which the buyer and seller, usually accompanied by their respective lawyers and real estate agents, complete the sale. At this meeting, the buyer usually makes all the required payments. The seller produces all documents necessary for the transfer of good--that is, marketable--title and delivers a deed that transfers the title to the buyer.

Before the closing, the parties and their lawyers will review all documents to see that everyone is fulfilling all conditions and promises of the contract. A closing statement or settlement sheet is prepared, fully listing the financial aspects of the closing. The Real Estate Settlement Procedures Act (RESPA) will apply in any transaction in which a buyer is obtaining a federally insured mortgage from a financial institution. This requires use of a settlement sheet developed by the Department of Housing and Urban Development. In other closings in which the buyer is not obtaining a mortgage, another form of settlement sheet is usually prepared.

Both buyers and sellers should expect to sign a lot of papers at the closing. Buyers should expect to sign the following:

- A promissory note promising to pay in full the loan and interest.
- The mortgage document which secures the promissory note by giving the lender an interest in the property and the right to take and sell the property--that is, foreclose--if the mortgage payments aren't made.
- A truth in lending form which requires the lender to tell you in advance the approximate annual percentage rate of the loan over the loan's term.
- A typed loan application form.
- A payment letter telling the buyer the amount of the first payment and when it is due.
- An affidavit that the buyer's various names (if he or she has used more than one) all refer to the same person.
- A survey form stating that the buyer has seen and understands the survey of the property and that it fairly depicts the property.
- A private mortgage insurance application, usually required on loans with a down payment of less than 20 percent.
- A termite inspection or other inspection form, indicating that the buyer has seen a report of any inspections that were made.

The seller can expect to sign the following documents:

- The deed transferring title in the real estate from the seller to the buyer.
- A bill of sale transferring ownership of any personal property that may be included in the sale of the real estate.
- An affidavit of title in which the seller states that he or she has the legal right to sell the real estate and that there are no liens or encumbrances (judgments, mortgages, or taxes owed) on the property.
- An affidavit as to mechanic's liens and possession indicating that the seller has not had any work done on the property that would give rise to a mechanic's lien and that there are no parties other than the seller entitled to possess the property.
- An occupancy certificate indicating that a new home complies with the local housing code.

Both buyer and seller will also sign the following:
- An affidavit specifying the purchase price and indicating the source of the purchase price. (This affidavit assures the lender that the buyer has not received any undisclosed loans from the seller that could negatively affect the buyer's ability to repay the lender's loan.)
- A RESPA form developed by the federal Department of Housing and Urban Development and sometimes a separate closing statement, specifying all costs associated with the transaction.

**Q. What are some financial aspects of the closing?**

**A** At the time of closing, the seller and buyer will total up various credits in order to determine how much money the buyer must pay. The seller will receive credits for such items as fuel on hand (such as oil in the home heating tank), unused insurance premiums, prepaid interest, and escrow deposits for insurance, taxes, and public utility charges such as water and sewer fees. These credits also will include any other items prepaid by the seller that will benefit the buyer.

The buyer normally will receive credits for such items as the earnest money deposited and taxes or special assessments that the seller has not paid. The settlement sheet also will specify who is responsible for the payment of various expenses. These will include the sales commissions and the costs of the title search, inspections, recording fees, transaction taxes, and the like. The allocation of such expenses will depend on the terms of your contract as well as the law and customs in your area. Your real estate agent or attorney should advise you ahead of time of how much money you will need at the closing. Typically, you will be required to have a certified check in the amount required to meet these expenses.

The chart below by no means exhausts the list of fees that might be charged at closing. Other common fees include: loan origination fee to cover the lender's administrative costs in processing the loan; credit report fee; lender's appraisal fee; mortgage insurance application fee; mortgage insurance premium; and hazard insurance premium. Buyers also may have to put money into escrow to assure future payment of such recurring items as real estate taxes. Also, there often are separate document fees that cover the preparation of final legal papers such as the promissory note and mortgage or deed of trust.

**Closing Costs**

Closing costs usually include all or most of the following:

| | |
|---|---|
| Appraisal fee | This is the fee paid for an appraisal of the property. It is required by the lender and often is paid for by the buyer. The Federal Housing Administration and Veterans Administration establish the appraisal fees for mortgages that they guarantee. |
| Attorney's fee | The buyer and seller pay the fee for their own lawyers. In some states, buyers are required to pay for the lender's attorney. This fee may be a certain percentage of the mortgage or a fixed fee. |
| Survey fee | If the lender requires a registered survey, the buyer probably will pay the fee. You may be able to avoid this fee if the lender agrees to accept a recent survey done for the seller. However, the seller must sign a document stating that the property lines have not changed since the completion of the survey and there have been no additional improvements to the property since the survey was taken. Even then, a title insurance company may require a new survey unless the survey is current or has been recertified recently. |
| Loan discount fee (points) | This is the lender's charge to the buyer to obtain the loan. The buyer may have paid some of this fee in advance to secure the loan. |
| Inspection fees | Charges for general inspections or inspections required by local laws. The buyer or seller may be responsible for these fees depending on the contract and local law and custom. |
| Title fees | Cost of title search. |
| Title insurance | The cost of title insurance, usually divided between the seller and buyer. The |

| | |
|---|---|
| | seller pays for the buyer's policy and the buyer pays for the lender's policy. |
| Recording fees | The cost for recording change of ownership such as a deed; the cost of recording the buyer's mortgage; recording the release of the seller's mortgage by the seller's lender; and recording the release of any liens found in the record of title. |

**Ownership Options**

**Q. What form of ownership is best for a home?**
**A.** To take title to the home, ownership must be declared in one of various ways. This may be as a single owner, joint tenancy, tenancy in common, or tenancy by the entirety. Each offers various advantages and disadvantages, depending on your personal situation. These options are discussed below, and also in the chapters on home ownership and wills and estate planning.

**Q. How is ownership affected if I live in a community property state?**
**A.** Community property states include Alaska, Arizona, California. Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. If you live in a community property state, state law holds that the property you bought while married belongs to each member of the couple equally, no matter whose money actually paid for it and regardless of whose name is on the title.

This provision generally applies to property acquired during the marriage, rather than property owned before the marriage or property that is inherited during the marriage. But state laws vary and you would be wise to discover how community property laws in your state apply to any real estate purchase under consideration and what form of ownership is best for your situation.

**Options for Owning Property**
Most married couples own property in joint tenancy or as tenants by the entirety. There are other options and the option that is best for you will depend on a variety of factors such as your estate tax situation and provisions you may want to make for children, step-children, or other relatives. For example, couples who have children from previous marriages may want their home equity transferred to their children upon their death, rather than to the spouse. Couples who are joint tenants may want to provide in their wills for the distribution of property if both die simultaneously. Be sure to consult an attorney about the various advantages and disadvantages of different types of ownership so that you can make an informed decision about the form of ownership that is best for you.

**Tax Considerations**

**Q. What is a transfer tax?**

**A.** Depending on the your state and local laws, there may be state or local transfer taxes due on the amount paid to purchase a home. A transfer tax is a tax paid for the privilege of transferring ownership of real property.

If the home is financed, there may be a documentary tax on the note and an intangible tax on the loan. Generally, the seller pays the cost of the transfer tax but in most cases it is negotiable. The buyer generally pays the cost of the documentary tax on the note and the tax on the loan.

**Q. What is property tax?**
**A.** Most homes are assessed a property tax. This is a yearly tax based on the assessed value of your property, usually paid to the local community. As a general rule, the tax is divided among the municipality (city and town), county, school districts (including the local school district and community colleges), and other governmental units. Currently, these taxes are deductible against taxable income on your federal tax return.

Depending on your state's laws, the amount you pay in property tax also may be deductible on your state income tax return.

**Q. How can I find out the current property taxes on a home?**
**A.** The seller should be willing to reveal the property taxes paid on the home over the last few years. If not, you or your attorney can obtain this information from the local tax assessor's office.

**Q. Will my purchase of a home affect the property taxes?**
**A.** Depending on how your state assesses property, a purchase can affect the amount of property taxes to be paid. For example, in some states, property tax increases occur only when a home changes ownership. The tax assessor reassesses the home using the price paid as its new value; in some cases, the taxes may skyrocket. In addition, many states reassess property every three or four years. If you are buying the home at the end of that cycle, you may see a large increase in property taxes. While the amount of tax may not be the deciding factor in your decision to buy, you will want to take it into account in determining your total monthly housing costs.

**Q. What is the difference between "assessed value" and "appraised value"?**
**A.** The assessed value of a home, determined by the tax assessor, is the basis for property taxes. It may or may not reflect the market value, that is, the price at which the home would be expected to sell. If you know the assessed value of a home, you can then determine the taxes to be paid on it. Contact the assessor's office of the city or county in which the home is located for the total tax rate. The tax rate usually is stated in "mills" and is applied to each one thousand dollars of assessed valuation. For example, a tax rate of ten mills on a home assessed at one hundred thousand dollars would be one thousand dollars. Be aware that not all states assess homes at their full market value. Some states assess on only a portion of the home's value.

The appraised value is an estimate of the property's market value made by a trained appraiser. A lender normally will require an appraisal to determine that the selling price does not exceed the property's market value or fall below the lender's mortgage.

**Q. Is there anything I can do if my home is assessed at a higher value than I paid for it?**
**A.** You may be able to appeal the assessment, based on your purchase price. Once you have purchased

the home at fair market value, you can appeal to the assessor's board or office. You must prove, however, that the sale was an "arm's-length transaction." In other words, you cannot purchase the home from a relative at a below-market cost and expect that your appeal will be successful. If the assessor grants your appeal and reduces the assessment, future taxes to be paid would be lowered. See the chapter on home ownership in this book for more on this topic. See the chapter on home ownership (chapter 5) for more on lowering property taxes.

**Q. What items involving home ownership are deductible against federal income tax?**
**A.** Both property tax and interest on loans of up to one million dollars in principal are deductible against your taxable income when you file your federal income tax form. Federal law also permits you to borrow up to one hundred thousand dollars through a home equity loan and deduct the interest, as long as the total debt on the home (including the first mortgage) does not exceed the fair market value of the home. Remember, however, that you must itemize to claim these deductions; they are not available to taxpayers who claim a standard deduction. New buyers may deduct any loan fees or points paid to obtain a mortgage in the tax year in which the points were paid, but only if the points were paid by funds other than the mortgage funds borrowed by the buyer. A point is equal to 1 percent of the amount borrowed. As noted earlier, loan fees or points paid to refinance a mortgage cannot be claimed in a single year; they must be spread out over the life of the loan.

Be aware that transfer taxes and most other local real estate taxes payable in a real estate transaction are not deductible. The same is true for other closing costs such as appraisal fees and recording fees. See Chapter 5 for more on possible federal tax breaks.

**Tax Considerations When Selling Your Home**

**Q. Do I have to pay federal taxes on the sale of my home?**
**A.** You do only if the profit on the sale is more than $250,000 ($500,000 for a couple.)

**Q. How do I determine my profits?**
**A.** You can calculate your profits by subtracting the adjusted cost basis of your home from its adjusted sales price. You can compute the adjusted cost basis by subtracting certain items such as the sales commission, lawyer's fees, and fix-up expenses from the price of your home when you bought it.

To calculate the adjusted sales price, start with the selling price. Then subtract the cost of capital improvements made while you owned the home and closing costs not deducted when you bought it. Note that you may not subtract the cost of repairs. The IRS is very strict about what it considers improvements. For example, repairing a water heater is not considered an improvement but adding a dishwasher is. Also, you may deduct the labor costs paid to a tradesperson (such as a carpenter) but not any costs for your own labor. The IRS requires home sellers to complete a form in the year of the sale that includes these calculations. You also will want to keep all receipts for any costs you are deducting from the sale. Without such written proof, the IRS is not likely to allow your deductions.

**Q. Now I have figured my profits. What about figuring my taxes?**
**A.** First, remember that if there is no profit, you do not have to worry about paying taxes; however, the IRS does not allow you to deduct any loss on a primary residence.

Until May 7, 1997, homeowners who sold their house could defer payment of capital gains tax by rolling the proceeds of the sale into a new house--but only if the new house cost more than the old one did. Then, after age 55, when they were probably in a lower tax bracket and ready for a smaller home or retirement community, each person was entitled to exclude up to $125,000 in profit--but only once. Because of these rules, many families bought bigger, more expensive houses than they needed, especially if they moved to an area with lower real estate values.

All this changed in 1997 with a new tax law. Now, you don't have to pay capital gain on the sale of any residence you've lived in for at least two of the last five years, unless the profit is more than $250,000 per person or $500,000 per couple. You have to count not only the profit on this house but on any other houses you sheltered by rollover prior to 1997. If special circumstances meant you had to move before living there two years, you can exclude part of the profit--for instance, half the profit if you lived there only one year, up to your $250,000 limit.

This change means that most people won't have to pay capital gains taxes at all on their home, unless they've racked up enormous profit. And you can exclude capital gain on sale of your residence as many times as you wish. Note that this door doesn't swing both ways. If you lose money on the sale of your home, you can't deduct the loss and pay less in taxes

The capital gains exclusion doesn't apply to investment properties and vacation homes. However, people with more than one home can avoid tax on each of them with a little planning. For instance, if you have a condo in New York City and a house in Florida, you could make the New York home your primary residence for two years before selling it, then make the one on Florida your primary residence for two years before selling it. For a house to count as your primary residence, you have to live there for 183 days each year.

Win or lose, whenever you sell a home you have to file Form 2119, reporting the sale date, the price and how much profit is subject to immediate taxation, if any. This one-page form takes you through the calculations required to determine gain on sale, adjusted sales price, and taxable gain. If you die without selling the home, all capital gains taxes are wiped off the slate. Your beneficiaries will inherit it at a new, stepped-up basis, and they don't have to pay any tax on capital gains accumulated on the sale of your home or homes over the years.

What if you own a duplex, live in one unit and rent out the other? In that case, you can only avoid capital gain on the half you use as your residence. The other is a business property, not subject to this tax break.

Save your receipts, because eventually your house just might gain enough in value that you'll want to prove that your basis has increased and therefore the profit isn't as great as it appears.

For details on IRS regulations in this area, see Publication 523, "Selling Your Home."

**Q. Will I owe state and local taxes on my profits?**

**A.** It depends. You may live in a state or city that will require you to pay state or local taxes on the profits of a home. Some states or local communities also charge a "transfer tax" on the sale of property. This tax is usually levied as a percentage of the sales price.

**Q. What is a sale-leaseback?**

**A.** A sale-leaseback occurs when you agree to sell your home to a buyer who agrees to rent the home to you for a certain period of time. Usually, this type of arrangement occurs between retired parents and their adult children. A sale-leaseback often provides the most advantages to retirees in low tax brackets who have children in high tax brackets. The family can structure it so that the children carry the burden of paying interest and take the benefit of deducting the interest from their taxes. The parents benefit by receiving income to offset expenses.

The sale-leaseback can be established in two ways. Either the buyer can obtain a loan to buy the home outright or the seller can provide some of the financing. In the first case, the seller would pay rent to the buyer. In the second case, the seller would pay rent to the buyer while the buyer would make payments to the seller on the loan given by the seller.

If you are considering this arrangement between relatives, be sure to have your agreement in writing and make sure that it conforms to IRS rules. For example, the IRS requires that the buyer pay a fair market price for the home and that the seller pay a fair market rent in order for the arrangement to avoid qualifying as a gift. In other words, the IRS will not permit you to structure a sale-leaseback to lower your estate taxes. An attorney can help you draw up the necessary papers to make sure you don't inadvertently run afoul of the IRS rules and end up with a penalty or gift tax. See the chapter in this book on older Americans for more on sales-leasebacks, reverse mortgages, gift annuities, and other options of particular interest to older persons.

## Gift Annuities

**Q. How does a gift annuity work?**
**A.** A homeowner interested in converting home equity into income may want to consider a gift annuity in which the homeowner donates the home to a qualified charitable institution and is eligible for a tax deduction against taxable income in the year in which the donation is made. In return, the institution provides an annuity to the donor and grants the donor a life estate in the home. This means that the donor may remain in the home for his or her lifetime and is responsible for all taxes and maintenance on the home. At the donor's death, the property becomes the possession of the charitable institution.

This arrangement offers several tax advantages, particularly for homeowners who do not have heirs or who want to reduce this size of their taxable estate. Again, a financial professional or tax attorney should be consulted.

## Buying in a Multi-Unit Dwelling

**Q. What is ownership in a common-interest community?**
**A.** A common-interest community is real estate in which ownership of individual portions of the property carries an obligation to pay money to another person, usually an association, for maintenance, taxes, upkeep and insurance of property other than the individually-owned portion of the property. Common-interest communities can come in many forms. There are condominiums, co-operatives, planned-unit developments and private-easement communities. In most of these common-interest communities involving residences, there is a homeowners' association charged with providing common services and maintaining the common areas. The homeowner's association may also have jurisdiction over use and occupancy within the individual units.

Almost all common interest communities are described in a "declaration," "master deed," or "declaration of covenants, conditions, and restrictions" found in the land records.

**Q. What is the difference between a condominium and a co-op?**
**A.** A condominium is a common-interest community in which individual units are separately owned but the

owners share an interest in common areas, for example, hallways, roofs, and exteriors. With a cooperative, or co-op, buyers purchase shares of stock in a corporation that owns a building. A condominium owner has title to his or her unit; a co-op owner receives a proportionate amount of shares in the corporation that owns the building, based on the unit's proportion of the building.

For the purposes of income tax laws and other laws regarding real estate, a condominium is treated as a single-family home. But an association has the right to impose maintenance fees, demand escrow payments for large repair bills, and manage the overall operation of the entire building. Owners of co-ops must abide by the corporation rules; additionally, if they fail to pay their fees, they may be evicted because they do not hold title to their unit. (See the section on shared ownership in the chapter on home ownership, (chapter 5) for more on living in this kind of property.)

**Q. Are there differences between common-interest home ownership and single-family home ownership?**

**A.** In single-family home ownership, the control, decisions, and expenses are the responsibility of the owner, subject to zoning restrictions established by local law and any restrictions contained in the declaration of the builder who originally developed the property. As a general rule, multi-unit ownership is subject to more extensive regulation than single-family ownership. For example, there are statutes, rules, and regulations governing what you may and may not do with your condominium, co-op, or other multi-unit dwelling.

Be sure to obtain all the information on the terms of sale and such regulations. Ask to see the bylaws, operating budget, management agreement, and regulating agreement. Many states require disclosures to the purchasers of units in a common-interest community. Some states have a central agency that licenses and regulates the development and sale of common-interest community units.

The cost of the unit is not the limit of your financial obligation with multi-unit real estate. There will be monthly assessments to cover maintenance and related expenses for operating the common areas. These assessments will be in proportion to the percentage you own of the total complex. If all the apartments in a ten-unit building are the same size, each owner would have a 10 percent ownership stake. This means that each owner will pay 10 percent of its assessments.

These costs may well increase over time. You should determine the amount of the monthly assessment and the potential increase before signing an offer to purchase. In addition, unit owners are subject to special assessments above and beyond the basic assessment, to pay for unforeseen improvements or repairs. Always ask about pending projects and their approximate cost. You also should be sure that there is enough liability insurance coverage for the entire development.

**Q. Can I obtain a mortgage for a co-op?**

**A.** The law defines owning a condominium as owning a piece of real estate. Owning a co-op, however, means that you own shares of stock in a building. Formerly, it was not easy to get a mortgage to buy a co-op. That was why prices on co-ops usually were much lower than condominium prices. Once the federal government amended the law to allow the Federal National Mortgage Association (Fannie Mae) to buy co-op loans, it made it much easier for prospective co-op buyers to obtain mortgages. Today, it is only slightly more difficult to obtain a mortgage for a co-op than for a condominium, but prices generally remain lower because of the extra restrictions placed on co-op owners.

**Q. What criteria should be considered when buying a condominium or co-op?**

**A.** One of the best ways to find out information about a condominium association, co-operative corporation, or other common-interest property is to talk to owners or shareholders. Ask them what they like best about where they live and what their complaints are. Along with all the things one would consider about a single-family home, such as neighborhood, prospective common-interest buyers should consider the following:

- Percentage of owner-occupants and renters. A high percentage of renters could indicate poor sales and/or absentee landlords who are less interested in maintaining the building. Because of these risks, it is often difficult for prospective buyers to obtain loans for units in buildings with a high percentage of renters.
- Monthly maintenance fees, special assessments, and the history of such items. You also will want to ask whether the association or corporation is involved in any lawsuits brought by builders, neighbors, or former owners.
- Financial condition of the association or corporation. You will want to get a copy of the most recent financial statement and budgets.
- Quality of construction. Hire an inspector and make certain that he or she checks the soundproofing, the condition of shared common areas, such as the roof and patios, and the electrical, heating, and plumbing systems.
- Bylaws and/or covenants. If these are too restrictive, you may have trouble in obtaining a loan or selling your unit or share in the corporation.

The chapter on home ownership (chapter 5) contains detailed information about shared ownership.

**The Fair Housing Act**

**Q. Can a homeowner legally refuse to sell a home to a potential buyer?**
**A.** The Fair Housing Act, Title VIII of the Civil Rights Act of 1968, covers housing discrimination. This law prohibits housing discrimination by real estate firms and homeowners. This means that homeowners may not refuse to lease or sell property based on race, religion, gender, color, or national origin. In some localities, special housing discrimination ordinances or laws also cover sexual orientation. This does not mean, however, that sellers must sell you their home. It means that you could take legal action if the seller refuses to sell and you believe it was due to discrimination.

A homeowner can face serious financial penalties if found in violation of this law. The potential buyer could sue for actual monetary losses as well as attorney's fees, court costs, and even punitive damages.

A homeowner may lawfully discriminate on economic grounds. Without too much fear of legal action, a seller could refuse the bid of a buyer with a poor credit rating or inability to obtain a loan. The homeowner's argument could be that he or she cannot be forced to remove the home from the market while waiting for a loan commitment that had little chance of materializing. Perhaps the safest thing for the seller to do if the economic viability of an offer is in question is to tell the buyer that offer might be accepted once the loan commitment is obtained if no other offers were received in the interim.

**Q. What is steering?**
**A.** Real estate firms and agents also are covered by the Fair Housing Act, which prohibits them from

steering, a practice of showing potential buyers homes located only in certain neighborhoods. For example, a firm or agent might be accused of steering if the homes shown to prospective black buyers were located only in black neighborhoods.

**Q. How can I tell if discrimination is occurring, and what can I do about it?**
**A.** You may suspect discrimination if:

- somebody tells you that a listed home is no longer for sale but it remains on the market;
- an agent avoids showing you homes in areas you have requested;
- a seller refuses a full-price bid on a home.

If you suspect that someone has discriminated against you, request a complaint form by calling the federal Department of Housing and Urban Development (HUD) at 1-(800) 424-8590 or online at http://www.hud.gov/hdiscrim.html. Its job is to investigate such complaints. You also may be able to contact a local civil rights organization to find out if your area has specific organizations to contact. Usually, you will have to consult a lawyer about possible legal action against the homeowner.

**Where to Get More Information**

http://www.bbb.org/ - Better Business Bureau

http://www.frea.com/frea/ - National Foundation of Home Appraisers

http://www.aarp.org/ - AARP's site has information on home equity conversion.

http://www.irs.gov/ - IRS site

http://www.irs.gov/forms_pubs/pubs.html - people can go here to select the publication by name or number from a list; click on it and view it by using Adobe's Acrobat Reader (more specific urls below for these files)

http://ftp.fedworld.gov/pub/irs-pdf/p530.pdf -- a pdf of Real Estate Taxes publication 530 (can be viewed with Adobe's Acrobat Reader)

http://ftp.fedworld.gov/pub/irs-pdf/p936.pdf - Home Mortgage Interest Deductions publication 936

http://ftp.fedworld.gov/pub/irs-pdf/p523.pdf - Selling your home publication 523

Nearly every state has federal information centers where information on federal services, programs, and regulations is available to consumers. Check the government pages of your local telephone directory for the office nearest you. The local library also can be a good source of helpful, free information. Various nonprofit agencies, such as the Better Business Bureau offices, can help you get more information on your legal rights and obligations in buying and selling a home. Look in your local telephone directory for the BBB office nearest to you or access www.bbb.org

The federal government publishes a listing of many free or low-cost pamphlets on home ownership and home buying. This listing can be obtained by writing Consumer Information Catalog

Pueblo, Colorado 81009; telephone 1 (888) 878-3256, website, http://www.pueblo.gsa.gov/

For information on HUD programs, contact the federal Department of Housing and Urban Development (HUD), Library and Information Services, 451 Seventh Street, SW, Room 8141 Washington, DC 20410. Telephone (general number) 202-401-0398. Website: http://www.hud.gov/ (general), list of local offices: http://www.hud.gov/local.html

Click here to go to Chapter 5