



# ***A guide to buying a home and some advice for sellers along the way***

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### **Introduction**

This booklet is a brief guide for people who are either buying or selling a home. I write brief with the thought in mind that each person's experience will be different, simply based on the fact that people involved in the process will never be the same; therefore the following information should be seen as a guideline. My hope is that you will have a better understanding of the terminology and the process involved with selling or purchasing a home. It will be in your best interest to ask questions ( a lot of questions if necessary) when you do not understand what is being said. If a person is unwilling or unable to answer your questions, then you might want to deal with someone else. Not understanding what is happening could cost you time and money. For example, the terms used by a professional may have a specific meaning to them, which might not be what you interpret it to mean. As a home inspector, I will usually not be able to see the installation of the wiring or plumbing, since I am coming in after a home is built. After inspecting the house, I might indicate that everything is functioning well with the electrical system or the plumbing. However, if the wiring or pipes were not installed properly, there is a risk of a problem that could not be observed by me. You would probably interpret my statement as meaning the wiring and plumbing were installed properly, even though that was not my meaning. I really have difficulties with the terminology mortgages. The term "points" can actually refer to different meanings, but how you handle the points for your loan can affect how much you will be paying. I give the most common definition in a section below. So take the information below as a starting point for your understanding.

Most of the information is directed towards a person buying a home, but a seller might be in the process of buying soon, so the information can be helpful. Sellers may want to take the time to understand what a buyer is going through, to be better prepared during this process, but the real information for the seller will be the home staging, which is presenting your home in the best light to buyers. Also, more sellers are having inspections done to avoid surprises, so you might want to go over the inspection section, in order to take a look at your own home.

Some sections are meant for when you are in your home, such as the energy

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efficiency and maintenance. The last few pages are listings to help someone find a service. I would suggest using the internet to search for more information, because the better informed you are, the better the service you will receive. About.com had good articles on mortgages and other home topics, and there are other sites which can give you information.

### **Steps to owning a home**

When my wife and I were buying our first home, we started out as most people do. We drove around the area that we were considering to find "for sale" signs. We took the information from homes we liked, so we could contact the realtor. At this same time, I went to the bank to find out about the loan. Before we knew about our standing with the bank, we contacted a realtor who was always sending us fliers, and who was selling a house we were interested in. His first question to me was "Have you been approved for a loan?" Since I had not been, he told me to call back once we were approved, and then he hung up. Fortunately for us, another realtor we contacted that day called back asking to set up a meeting with us, and he was the realtor we used to find our home. He was great in explaining the steps to us. The steps below may not happen in the order listed, or may not happen at all, but they are a good way to find and purchase your home.

Before I go through these steps, I would like to mention that there are several resources and agencies which help first time home buyers. My favorite for information is from HUD. Even if you are not buying a HUD home, you might want to read some of their guides. There are links to some of these organizations listed on the Links page.

*Step 1* Our eyes are bigger than our wallet. Most of us drive through a neighborhood looking for a home that matches our dream home. The only problem is that we might not be able to afford it. I recommend going to your bank or mortgage broker to pre-qualify or to be pre-approved for a home loan. Once you know what you can afford, you can narrow down your search parameters.

*Step 2* Find a realtor. You can find and purchase a home without a realtor, but a realtor can save you time and money. When you present a realtor with the information about your desires and price range of a home, they can quickly narrow down the range of homes to show you. They can also help you through other steps of this process, so you do not have to go hunting for information and services. Finally, they will help you through the closing process. Remember the realtor who is listing a house for sale works for the seller, so they will be looking for the best deal for the seller, but all realtors work by a code of ethics, so no realtor will treat you unfairly.

*Step 3* Making an offer for a home. Each seller will want to get the best price, and the buyer will want the best deal. Your realtor will know the market conditions, so that your offer will be accepted. A price on a home depends on a number of factors, and the buyer's inclination is to go low, so do not be surprised when your

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Realtor suggests otherwise. For example, I wanted to offer \$4000 less than the asking price for my home, but the realtor told me that was a bad idea. He pointed out that the home had been listed for much higher, but the seller had to do a lot of major repairs along with coming down on the price. Other homes in the area were actually listed \$10,000 more than the house I was looking into buying. My offer would have been immediately rejected. If you do make a lower offer, the seller may come back with a counter-offer of a price he will accept, or he may just not accept your offer. A realtor can be an asset to judging how to bring about these negotiations to a successful conclusion.

*Step 4* Once you are in negotiations for a home, you will probably want to know its condition. There are different inspections which can be done. The two most common are the home inspection, and the WDI report. I describe the home inspection in detail below. A WDI report is created by a pest control company. WDI stands for "Wood Destroying Insects". Other inspections are: alarm system checks (performed by security companies); HVAC check (performed by air conditioning firms); pool inspection (performed by pool maintenance firms); and a structural analysis by a structural engineer. You can even have a plumber check out your water supply systems. Many people will have a foundation company perform an inspection. How far you go or do not go is up to you, but an inspection cannot tell you whether to buy a house or not; it can only tell you the home's condition. To be safe, I would suggest the home inspection, so that you will have a general idea of possible issues with your home.

*Step 5* After the inspection(s), you have a chance to re-evaluate your offer. If there is a major problem, the buyer may want the costs of repairs to be deducted from the price, or he may want the repairs done by the seller before closing. Maybe some equipment is still functional, but it is old, so the buyer may want a home warranty insurance to cover the equipment if it breaks down in the first year. When I was at this stage, I really wanted to have every little thing repaired by the seller, and I was still hoping to lower the price of the home. Again my realtor was a voice of reason. He pointed out that the repair issues were minor, and we would just be petty insisting that the seller should cover those costs. My realtor did suggest asking for the home warranty, which was not a bad idea.

*Step 6* This step will probably be happening at the same time as step 5. You may need a survey of the property. This can be required by the lender or the title company to establish what is being purchased. If the home has been recently (usually within two years) surveyed, you may not need a new one.

*Step 7* Your lender may require an appraisal of the property. This is to determine if the property's value is in line with the price that you are paying.

*Step 8* Arrange for homeowner's insurance. There is a section below with tips on this topic.

*Step 9* Make arrangements with the mortgage lender and title company for payments needed. Costs could include charges for the survey, the appraisal, the

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title, or any service provider's fee. Service providers could include home inspector or attorney. You may need to pay the insurance at this time, or money to the bank.

*Step 10* The final step is the closing. There is a section below to help you make this process easier. Closing is tying up all paperwork and fees, in order to transfer the house to you.

Lastly, the time period before closing can be hectic. It is advisable that you go through the information being presented to you to prevent any problems. You may not be able to read everything, so ask questions of every one you are contacting, and write notes on what was said. My experience at this time was that people acted like I should all ready now all the terms, while understanding all of the implications of what I was doing. In part, this happened because for some workers, there was an assumption that I should know, and others just were not good at explaining. There was also an element by some of taking advantage of my misunderstanding, but few people that you are dealing with will behave in this manner.

## **A Quick Guide to Mortgages**

The City of Houston has a website which provides assistance to people who wish to own a home. The site may not be for you, but it does have useful information on it. One downloadable file has a list of affordable lenders in the Houston area. Below is a list of terminology connected with mortgage loans. I found good information on the internet about lenders and mortgages, but two sites that are worth a mention are Wikipedia and About.com. They have various articles concerning this topic. I would like to stress asking a lot of questions when obtaining a loan, so you understand what is happening. Some questions you should ask are the following:

1. What expenses will the escrow account cover, and how much will you be required to put into it each month? Your property taxes and home owner's insurance are typically paid out of this account, but you need to know. I thought my insurance was going to be paid by one lender through this account, only to find out that I had to pay for it myself. Lenders want to set the monthly rate for this account for more than the expenses, so they will have any changes in cost covered, but they are only allowed to keep so much money in the account for next year.

2. How much will the PMI or borrower's insurance be? When can you stop paying it? Lenders want to insure that you will be able to make loan payments, so they require that you purchase an insurance to cover the payments if something happens to you. In most cases, this insurance benefits the lender more than you, so when you have the opportunity, you may want to cancel this cost.

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3. Are there any penalties for paying off the loan early? Some lenders do not want you to pay down the principal of your loan, since this will lower their profit by lowering the interest that you will need to pay. By paying a little towards the principal each month, you will save money in the long run. Usually, your loan payments will be balanced more to paying the interest than the actual amount borrowed (the principal), when you start making payments.

Look at different lenders, and find out on what items they are willing to negotiate; you may save yourself a good deal of money. Read the section below about credit scores to understand how this number will effect your mortgage payment and your insurance cost.

### Types of Mortgages

**Conventional fixed-rate mortgage**- allows you to make a fixed monthly payment at a fixed interest rate for the life of the loan (mortgage). This type of loan offers you stability and long-term tax advantages. Interest rates are usually higher than other loans.

**Variable rate mortgage (Adjustable rate mortgage)**- your payment is fixed, but your interest rate floats. This is good if the rates are high and you expect them to fall soon. The changes in the rate could possibly cause changes in the monthly payment amount, the loan term, and the principal. Some plans have rate or payment caps.

**Renegotiable Rate Mortgage**- your interest rate and principal payments are constant for several years, and then could be renegotiated.

**Balloon Mortgage**- your monthly payments are based on a usually short-term fixed interest rate. The payments may cover only the interest payments, so that the principal is due at the end of the term of the loan. Offers low monthly payments, but little or no equity in your home.

**Reverse Mortgage**- this is a loan for people who have paid for their homes, and they wish to use their equity in the home to give them an income, so this mortgage is not for home buyers.

**Interest Only Mortgages**- this is where you only pay on the interest of a loan, but not the principal. You will have no equity in the house. If you are planning to sell the house soon (or live in it for a short time), and you are not concerned with building up your equity, this loan may be good for you.

### Terms

**Amortization**- the amount of time it will take you to pay off the loan. The longer you pay, the lower your monthly payments will be.

**Annual percentage rate (APR)**- the cost of borrowing, expressed as a yearly rate.

**Cap**- a limit on the amount the interest rate is allowed to climb on an adjustable rate mortgage, either over the life of the loan or at each rate adjustment.

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**Closing costs-** Fees associated with the buying and selling of property and the setting up of the mortgage. These costs can be negotiated within reason.

**Escrow account-** an account where money is held to pay certain expenses, such as taxes and insurance. When setting up your loan, find out what will be paid from this account, so you will be prepared for an expense not covered by this account. The down payment for a property is held in this type of account.

**Loan origination fee (loan application fee)-** a charge from the lender to cover costs in preparing the paperwork for the mortgage.

**PITI (principal, interest, taxes, and insurance)-** the four components that can be included in your mortgage payment. **Points-** a charge that is designed to increase the bank's profit on your mortgage and cover closing costs.

**Title charges-** a title insurance required by lenders to protect them against someone making a claim to the property. **Pre-approval/Pre-qualification-** If you pre-qualify for a loan, the lender has taken a general look at your credit, and they think you might be some one they could loan too. If you pre-approve for a loan, the lender has taken a close look at your credit to determine that they will lend you the money for a home.

**Private mortgage insurance (PMI)-** an insurance which protects the lender if you default on the loan. After you have at least twenty percent equity in your property, you can ask your lender to cancel this insurance.

**Appraisal fee-** a lender can require you to pay for an appraisal of the property to determine if it is worth less than what you are asking for in the loan.

**Survey fee-** a lender can require that a survey of the land be prepared to determine what the title to the land includes. **Property insurance-** the lender will require to see proof that your house is insured. This is to ensure that if something happens to the property, it will (or could be) repaired.

**Prepaid taxes or utilities-** money owed to the seller if he has paid taxes or utilities beyond the closing date.

**Services charges-** fees connected with connecting the property services such as phone, cable, utilities.

**Attorney's fees-** if you use an attorney to help with the purchase or selling of the home, you will have to negotiate their fees. An attorney is not always involved in this process.

**Real estate fees-** fees paid to the broker, which is built into the price of the home.

### **Home owner's Insurance**

The State of Texas has a Department of Insurance website ([www.tdi.state.tx.us](http://www.tdi.state.tx.us)), which is helpful with various insurance needs, but for some one purchasing a home, the list of price estimates is a great tool. Insurance

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becomes difficult to compare from one company to the next if you are not aware of what is being offered. Generally, a home owner's insurance policy will cover these areas: the dwelling; other structures on the property; personal property; personal property off premises; liability; and medical payments. The person giving you a quote could assign any value to these areas, which could drastically change the cost of your coverage. Many people put the amount of the cost of the dwelling at their purchase price, but this would include the price of the land. Ask the insurer to exclude this cost. There are mainly two methods for determining the value of the dwelling: 1) a percentage of the sale price is deemed to be the value of the dwelling (frequently around sixty percent); and 2) the cost of rebuilding based on your square footage. The next step in lowering your insurance cost, while maintaining proper coverage, would be choosing your deductible. Insurers calculate a 1% deductible on your policy. If you could afford to pay for more repairs out of your own pocket, you might want to go up to 2% deductible. If you maintain the savings, this might not be a problem, but make the determination what expense you can afford. The other coverage areas also can lower your cost if the amount of insurance you need is less. How much would it cost you to replace your furnishings? How much would it cost to replace that shed? Go over the coverage with your agent to obtain a quote for the insurance you really need.

Another way to lower your insurance is by bundling your insurance to one provider (car, home, and any other insurance with one agent). You should also ask about discounts. You may lower your policy with discounts for not smoking, or having an alarm system (monitored or unmonitored), or for the job you have (like working in a teaching institution). Different insurers will have their own policies on discounts, so their might be an insurer who will give you something as a discount. Just remember to negotiate for the best coverage.

Before you start calling for quotes, have this information on hand: the year the house was built; the square footage; the tax appraisal as well as your cost for the home; the buildings exterior veneer (wood, brick, etc.); and an idea of the condition of the roof. Most of this data can be obtained at HAR.com's home value finder option, but other information can be from the home inspector. There will probably be other questions, but knowing this data will help you along with a quote.

If you go to the Texas Department of Insurance site, you will find the price estimates when you look for a line that says "Rate comparisons" on the homepage. This line will have several links; you will want the one for "Homeowner rates". This will bring you to a page that you should read to understand the chart for the estimates. On the top of the page, there will be a link that says View Price Estimates. Pick an area, which would be Southeast Texas for Houston. Pick your city, and then you will have your estimate sheet. As in any process involving a large expense, you should obtain three quotes, so you have options.



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NOTE: my advice here is for first time home buyers, but I just read a disturbing fact about homeowner's insurance. Most Americans do not update the amount to reflect the current cost of rebuilding, because they go with the figure that they used when they first bought the home. Re-evaluate the cost of replacement for building the home every few years with your agent, so you will not come up short if you have to rebuild.

### **Your Credit Score**

With the subprime mortgage crisis of 2007 causing problems for people looking to buy a home, I decided to take a closer look at obtaining a loan for a home. I decided to pretend that I was going to buy a home, and that I probably have bad credit. I thought by making this assumption that I might discover some bits of advice for home buyers when dealing with their credit.

Like most of my searches, I started off at the library. I took out several books dealing with financial matters, but I focused on volumes which had an emphasis on repairing credit or dealing with bad credit. You will discover that your library has a good deal of information on this topic, but I found that after reading a few books that some information is no longer current. I came to several dead ends, so I am going to write about the path which gave me some results. I will not deal with what you should do if you have a real credit problem. My goal is to help you find the best deal on your mortgage. The books in the library can help you in dealing with your credit debt.

What I discovered is that lenders place a good deal of importance on FICO scores, but that these scores are not what I thought they were. Fair Isaac Company (FICO) produces the method for this scoring system, but here is the catch: there are different FICO scores for different situations and different companies. One FICO score is specifically for mortgages while another is for auto loans. There are other FICOs for other loans or insurance. On top of this, each company may use a slightly different mean for calculating this score. The score is actually a comparison of your financial history to other people. It predicts your behavior by stating that someone with your history will statistically behave like these other people. Scores generally range from 350 to 850. Below 500, a person is considered to be a great risk. Between 500 and 700, a person is considered to be an average risk. Above 700, a person is considered to be of little risk. I am making broad statements here because each score number actually predicts an exact risk. The higher number provides you with lower interest rates for loans, and you can obtain a better price on insurance. Your FICO score is also constantly changing. The score may not have large hundred point jumps, but twenty points may conceivably occur from month to month, and this can result in differences in your loan rates or insurance rates.

All of the books that I found made reference to three Cs or five Cs for explaining your score and how to improve this score. Generally these Cs were broad terms like character and capacity. Here is what improving your score boils down to though:

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1. Pay your bills on time- various credit institutions have a variety of means for causing you to mess up on this part. They want you to pay your bill late, so they can charge late fees, and then increase the interest you are paying for this credit loan. If your due date is a Sunday, pay by the Friday before that date. One credit card company has a due date, but the fine print says that payments take five days to process, so the actual due date is five days before the stated due date. Check every detail, so your payments are credited before being considered late.

2. Have your debt to credit line and your debt to income ratios low. Here is how you calculate these numbers: add up all of the amounts you owe on your credit cards. This is your total debt. The credit card statements will have a figure for your total line of credit (how much you can spend on that card). Add all of those numbers up to obtain your total credit line. If you receive the same pay each week, take the amount you earn before paying taxes, and then multiply this number by fifty-two to get your yearly income. If your pay is different each week, use the amount from your last W-2 form to have an idea of your yearly income. Debt to credit line is dividing your total debt amount by your total credit line. Debt to income is taking your debt and dividing it by your yearly income. You now have two percentages. These percentages should be below 33% (.33) according to most financial experts. If you want a good rate on your mortgage, you should at least pay down this debt to make your ratios below this threshold. Of course, the lower you go will be better. Along these lines, your mortgage payment should be between 25% and 30% of your monthly income (yearly income divided by 12). Realize that you will be paying utility, phone, and maybe other bills connected with your home, and then there is food and other living costs (like clothing). Sit down to plan out a possible budget at this point to see what you can afford. Ask people that you know, who live in homes, what their monthly expenses are to give you an idea what you might be spending. My wife and I wanted a home in a certain neighborhood, so we went with the higher percentage of income to buy the home that we wanted. There are times that I regretted that decision when I am paying monthly bills, but our plan has worked out. Lenders do not take your life style into account, so they will offer the loan based on your financial numbers, and this may not be right for you. This makes a predicted budget important to your understanding of which home that you can afford.

3. How long is your credit history- Here is a mistake that I made. When I was newly married, I ended up with some debt. Frustrated with the credit card companies, I cancelled my cards once I had paid my debt. Thus ending my credit history, and beginning anew. How long you have possessed credit affects your score. The longer history is better for your score. Do not cancel cards; just hide them away. If you cannot obtain an unsecured credit card (a card where you have no asset in the possession of the credit agency), arrange for a secured card. These cards require that you place up money or some other collateral to ensure that you will pay. With a good payment history, you can obtain an unsecured card. Note: if you do not pay the debt on a secured card, the lender can confiscate the asset or money. You will want some type of history to obtain a good mortgage. I managed to find a reasonable mortgage with my mistake, so do not let the lack of a really long history deter you.

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4. How often are you applying for credit cards? My mail box is flooded with credit card offers each week. One company sends me six offers per week every week. I am loved. Apply for the credit you need, not the credit you want. If you have a couple of cards, then stick with them. Having a fat wallet with a lot of cards will only cause you to pay higher rates. The more you apply causes credit reporting agencies to look unfavorably at your financial history. An exception to this rule of more applications is bad is applying for mortgage loans. Apply for as many as you want to find the best deal, but do it within a two week time frame. Credit reporting agencies consider all mortgage applications within a two week span to be one application for their records.

5. How many credit accounts do you have? This is related to the topic above, but in this case they are looking not at the number of applications, which could have been denied, but at what you have. From my own experience, the mortgage broker told me that I should have at least five lines of credit, which I should have kept for a while. I did not need to be using them though. They needed to be active, but they could have a zero balance. At this point, I want to mention that the type of credit you have is important to the score. If you have credit at a rent-to-own style store, your credit score goes down. I did not find an explanation for this, except that you are perceived as not being able to purchase the item in a more acceptable fashion.

My next step was to look at my credit report. You can obtain one report for free each year from all three major credit reporting agencies: Experian, Equifax, and Transunion. (Note: as of this time, February 2009, Experian announced that it will no longer provide credit scores due to their relationship with the firm that produces FICO, Fair Issacs). I do this through the government's web site, usa.gov. When you go to this site, look for the topic titled "Consumer Guides". This will bring up a list of helpful sites or documents produced by different departments. This site has a lot of useful information on various subjects, but there are two here of immediate interest to you: Homeowner's Resources; and Credit Reports- Free. Right now, I need the my credit report so I click on the latter link. It brings me to the page [annualcreditreport.com](http://annualcreditreport.com). This page has some information for you, but what you need to do is click on the link "request a report" for your own report. You are going to fill out some forms, and you will have to pick an agency. All of the forms on this site and on the credit agency's site are to determine who you are and that you can prove this fact. They will ask about an old address for example. Once you have selected an agency, you will be directed to their site. Each agency will try to sell you some type of plan or service, but you do not need to do this. Usually the plain button at the bottom of the page will take you through the process of getting your report for free. Generally the process is a bit like the checkout steps at any internet retailer. They do have a verification process to check that you are the person who the report is intended. Once you have finished your check out, they create the report for you. This may take a moment, so be patient. Each company presents the report differently, so read what is happening on the page. You want your full report; you may have to look for a button to link to it, since they may have only a summary at first. Remember to print or otherwise save your report. They will ask if you want to be on their e-mail

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list. Yes, they will send you messages about services that they want you to buy, but they also have news letters about handling your credit. The services can be helpful if you have been a victim of identity theft. There will be a button to link back to the [annualcreditreport.com](http://annualcreditreport.com) site. Go back to this site when your are done. You can go through this process for all three at this site. Close your browser once you have the reports that you want. Some scam artists can track your information, when you log onto another site. Any time you are dealing with a financial matter on the internet, close your browser between sites.

I have my report, so I need to go over it to check for accuracy. I read a statement in one of my library books from an executive in this industry which stated that 90% of the reports have some inaccuracy. This number is incredible, considering how much financial institutions are relying upon it for their dealings with us. Common problems are people with similar names, who live close to one another, will find that the agencies will not distinguish between them. Juniors and Seniors in a family will have this same issue. There are some pretty fantastic ones where the agency will assume you are the same person as someone else, because someone typing in the information decided that the two of you were one person. Some mistakes are typing errors done at a financial institution that are provided to the reporting agency. I only find one mistake on mine. A dispute that I had with a credit card company relates their version of events, but it does not state all of the facts. Pretty minor compared to what you might find. To correct this, all three sites have information on how to dispute your report. They will have a page during the checkout proces dealing with coming back to their site and dealing with a dispute, so you will want to pay attention to how this is done. Follow the steps that they outline, and remember to check back with them. You should keep records for yourself, when you are dealing with lenders you may want this data. The agencies may be slow in making a correction that you want. Just go over each entry to see if it matches your records. You will see any record which has some relevance to your current financial history. You will also see who has been checking up on you. Many of these firms are requesting your report, because they want your business. As long as the inquiry originated with them to solicit your business, and not with your request for credit, the number of these inquiries will not matter.

Once you have dealt with your report, you might notice that there is no score. For that you will have to pay extra. You do not really need to know your score, but it can always help. Here is a way to obtain a score without paying. Go to the web site E-Loan, [www.eloan.com](http://www.eloan.com). This site can help you find a mortgage if you wish, but the site has a means for calculating a credit score, which uses a similar method to FICO. Go to the Tools & Calculators tab. Under the Home Equity tools, you will see Credit Reports and Scores. Under this topic, you will find Free Credit Score. There is an "order now" button. Do not worry; it is free. More forms to fill out, and you will need to create an account. There are some steps here to go through to obtain the score. My only problem at this stage was during the verification process. They asked for a credit card number to match up with my report. My card number had changed, and the physical card that I used was not accepted. I had to type in my home loan

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number for the score. The lesson is that you need to look at your report to find a card number that will work. This produces a score that is close to the scores produced by the reporting agencies. You want a score above seven hundred to obtain the better rates. I think this step is helpful. I read where some lenders were pushing their customers into subprime or other loans meant for people with poor credit scores, because they would earn more money off of them that way. I am glad that they remember that greed is a sin.

Another method for obtaining a range where your score might be is on the site Credit.com. I found this site to have a great deal of information, so take some time to explore it. You will find that they have listed a way to find your score on the main page. You will need your report. They will take you through some questions (they do not look up the report like E-loans). After you have completed the forms, they provide you with a score range. What I like about this site is that they followed up with an e-mail containing advice about my credit situation, and how I could improve it. Of course all of these sites want to sell you a service. Unless you are or have been a victim of credit fraud or you do not feel that you can be vigilant on your own, you do not need them.

This is where I end. There are other web sites, but I think you only need the ones that I took on my journey. I found that I am doing well, which really surprised me. You never know how this will end up. At this point, you will have the information to proceed knowledgeably. If your score is below 700, or there are a lot of mistakes on your report, you may want to deal with this first. Go through the dispute process, and take the steps to improve your score outlined above, before applying for a mortgage loan. When you have done what you can, you may find that you can obtain a reasonable loan with a score below 700, so do not let a low score stop you. For the loan, I suggest that you settle for nothing less than a conventional fixed rate mortgage. If you do not understand all of the ins and outs of interest rates or other details for different types of loans, you can find yourself in trouble quickly. With a fixed rate loan, your payments remain the same basically. Why do I write "basically"? Well, there is one trick up your lenders sleeve, and that is the escrow account. I go into the escrow account in another section, but briefly, the bank can require that you pay more money into this account if they feel that the taxes or other items paid by this account will have a higher cost. Understand what type of mortgage your being offered, and what that entails, so maybe another trip to the library for books on mortgage loans is in order.

### **Delving into the Paperwork**

This article is just to introduce the topic, and to remind readers in other states that I will be dealing with generalities (or at least what I believe are generalities) about mortgage paperwork and the paperwork at closing. Some information here is similar to what was presented above, but I wanted to go over other details here. Each state, lender, and title company will have their own rules in regards to paperwork, but the basics remain the same across the country. I will not be going into terminology or differences in mortgages types, since I already have that on this site. My goal is to

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prepare you for comparing different mortgage estimates, understanding some papers that you will have to sign in relation to the loan, and what kind of paperwork will come up during the closing. I have found that loan officers are good about answering questions when they arise, but you should not be ashamed to ask. This is the biggest investment that you will make, so you need to understand what it is they are saying. I have also found that your Realtor can be of great assistance to you during closing. They have been through this before, so trust them to guide you.

There are several good sites and blogs that deal with mortgages. I have a links to a blogs on my own blog which you may find useful. I want to give you another perspective on this topic by giving you these links. When doing my research on credit, I found a lot of useful information on the E-loan and Credit.com sites. I had heard of them, but I had no reason to go to their sites, until I was doing my research. I have since signed up for their newsletters, which are interesting. With a little effort in phrasing your search terms, you can find a great deal of information on your own.

Before we start delving into the topic properly , I wanted to mention mortgage fraud. Most lenders that you will encounter are honest people trying to do their job, but there is always someone out there ready to scam you, so you should be aware of these practices. The National Association of Realtors has some brochures on fraud available at their website. There is also a site where professionals in the real estate industry report schemes that they are seeing. Mainly the information here comes from appraisers. The site is called MortgageFraudWatchList.org. Some states have been currently enacting laws to prevent some of these schemes. For example, Texas has a new law which will go into effect in January 2008, that will force people who are trying to unload houses with liens on them to report this fact within seven days of the sale. You can find out about your state's laws by going to the state website and typing in real estate or mortgages in their search engine, but you will have to do some digging. Realtors are usually up to date on many of these laws.

Take these parts as cairns along your way, and take the time to explore what others have written. I can tell you from experience that you can easily be overwhelmed, so the more you know going into this process, the better you will handle it.

### *Part 2 How to start your wanderings*

You may ask where should you go to obtain a loan, or which title company should you go to for your closing? There can be positives and negatives to any place where you can go, and sometimes it is better to let others help you in this decision. Many real estate professionals work with one another, so they may have someone that they prefer. If you are working with a Realtor, they may have an in-house loan department, and a Realtor would have a title company that they are familiar with. You may ask them their opinion.

No matter where you obtain your mortgage, you will want to analyze their offer to see if it is right for you, so I want to go over the steps for a quick analysis of a loan. Internet sites like E-loan and LendingTree can offer you tips as well as presenting you

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with offers, so this may be a good place to start your search. If you have a relationship with a financial institution, obtain a loan quote from them- often these loans can reduce fees for your other accounts. There are also mortgage service firms, which will look for mortgages matching your requirements. They are not affiliated with certain banks, so they look at different institutions to find you a deal. When looking for a mortgage, make all of your quote requests/applications within a two week period. The credit reporting agencies will see this as one loan request, and that fact will help your credit score. (The more loans that you are applying for will lower your score, so you want your loan hunt to be seen as one request, which will not hurt your score). One warning: sometimes you can find a mortgage that suits your needs, and you will go with it. You may find that the company will sell your loan to another firm, which imposes its own rules that do not match your expectations. Do some research on the company where you will obtain your loan.

Looking at the offers from different firms will cause you to quickly realize that you may be comparing the old VW Beetle to the Porsche. They were both designed and developed by the same man, so there are similarities, but they are vastly different machines. The easy way to compare different quotes comes from a requirement by the federal government: listing the APR. APR stands for annual percentage rate, and it is the interest rate that you will pay expressed as an yearly rate. Comparing the APR from one firm to the next gives you a quick look at how much each will be charging you to borrow money from them. The APR is also useful in determining if you are being stuck with a lot of fees. The lender will provide you with an interest rate and an APR. The interest rate is just the amount of interest that you will be paying on the loan, but the APR will include all charges (think fees) related to that loan. If these numbers do not match, the lender is hitting you with fees. All loans will have forms called HUD-1 and a Good Faith Estimate. These forms contain a schedule of fees associated with the loan, and you need to be aware that you can discuss and negotiate these fees with your lender. Go through this list to check if any of the fees duplicate each other. For example, you may see an application fee and a processing fee which could be the same thing- handling your paperwork. After looking through your fees for questionable ones, you will need to look at costs. This is a bit harder, since some costs depend on what the going rate in your area is. For example, how much are appraisers charging? This amount could depend on the appraiser, who may be charging \$100 or \$500. This is not a fraud; it is just their standard service fee. I would do a quick search to find out what an average fee for that service may be in your location, either by internet or phone. Some fees like obtaining your credit information should be around \$25 to \$35, but lenders will tag on a \$100 fee for this service claiming that they have to cover their expenses. The expenses should have already been covered in any fee for the paperwork. Typical fees include courier fees, notary fees, points, credit check, overnight delivery, appraisal, origination, escrow and title insurance fees. The origination fee should be the only fee related to creating the loan; there should be no other document preparation fees.

The one part of the loan which can fluctuate in any loan type is the escrow account. This is the account set up by the lender to cover expenses with the house. Each

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lender will consider different items as being paid from this account. Usually your homeowner's insurance and your taxes are paid from this account. Currently federal law dictates how much a lender can keep in this account after payments have been made for the year. During the year, the lender can require you to pay more or less into the escrow account based on what they feel will be the costs to them will be at the end of the year. You should know exactly what will be paid out of this account by your lender, so that you will not have to scramble to make a payment. You should also know how much your expenses are for the items in the account, so you can discuss this with the lender. For example, if your property taxes are \$2000 a year, and that is the only item to be paid out of your escrow account, then the lender should not be collecting \$8000 a year. Sounds unreasonable of them to collect so much? One lender insisted on doing this with me for my loan. At the time the law about returning funds was not in place, so my lender informed me that they were keeping the additional \$6000, and by the way, they were going to increase the amount that I paid into escrow for the next year. When they refused to change this fact, I refinanced my loan with another lender. The message is to look at what your lender is doing and understand it.

When closing at a title company, you are tying up all of the paperwork involved with transferring the house from the previous owner to you and with ensuring that everyone gets paid. Most title companies are doing the same work for the same rates. You can call to find out which one you would like to use, but if you are using a Realtor, they would know of a title company that handles everything to their satisfaction. On occasion, the lender will have a title company that they frequently use. Thinking about the amount of work involved with the documentation from different sources, your best move will be to work with the suggested firm. Closing comes quickly, and you will have so much else going on in your life at that moment, you should make it easy on yourself.

Everything here sounds simple; however, many of us fail to take these steps. Take your time one evening, away from distractions, and look at the offers. You can write down the numbers in a spreadsheet format to give a better picture of each loan. Be forewarned, these offers are estimates, and some figures can change once you have accepted. Your best weapon in dealing with a loan is your willingness to question the terms presented.

### *Part 3 – A description of mortgage paperwork*

I mentioned that each loan is different. This is due to the lender having his own papers that he needs signed, but states also develop forms that they want you to have. Currently many states are reviewing what you should be informed of when accepting a loan, and the federal government has their say too. This makes it hard for me to write here it is, this is what is in all of your mortgage forms. I do want to give you a clue, since I know from experience, you will not have enough time to go over all of these documents.

The vast majority of the papers that have been set in front of you are disclosures.



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These disclosures will be explaining how the lender will handle your loan, who may be helping them administer the loan, what are different features in the loan, and what will happen in case of certain events in the loan (like prepayment or foreclosure). These documents are written by lawyers or legislators who want you to know your rights as well as the lender's rights, so there is a balance between legal terminology and plain English. Since these disclosures are required by a state government, the lender has to verify that you obtained a copy, so there will be a lot of signing of disclosure acceptance verification forms. Many of these disclosures relate to items you may have already discussed with your lender or you may realize is a consequence of some other aspect of the loan that you are aware of. For example, the lender will have to check your credit history for a loan, so one disclosure will be about how this was done. The lender may have spoken to you about an appraisal or survey, so you will find one disclosure informing you of these services. There will be a disclosure explaining a feature of the loan like the borrower's insurance. Do you need to read all of these disclosures? If you feel that your lender has been giving you forthright explanations of the terms of your loan, you can read these disclosures after you close on the house. However, if you are feeling lost, and your lender has not guided you enough, then you should read these before you sign.

All documents associated with a loan have to be signed, but not necessarily by everyone involved with accepting the loan for the house. Different states have their own rules, but usually only one person has to sign. Some documents will have to have both signatures. If the loan is only in the name of one person, but there is another involved, the lender may require a document to be signed by this person stating that they are aware of what is occurring.

The next large set of documents will probably be from the lender going into details of the loan, or even details of other types of loans that they offer. Since this comes from the lender, there will be no signature requirements. Since the disclosures above were mandated by a government entity, these documents will deliver the lender's view of the loan, and how they will handle it. This package is general information, so it could be that much of it is irrelevant to you at this time, so I would say that you can hold off reading this till later.

There are four documents that you should understand, and that you should study. I mentioned in the section above about how to evaluate loans by using two of these forms: HUD-1A and the Good Faith Estimate. The Good Faith Estimate is a two page form going over the likely charges that you will incur when you accept and use the loan to purchase a home. On the top of this estimate will be a section describing what type of loan you have, the interest rate, how much you are borrowing, the dates of the estimate and closing, and the percentages for the fees associated with originating the loan. The sections below this go into items which need to be paid to make the loan happen. An example of one of these items would be an appraisal or an inspection of the property. The next section will have items that need to be paid in advance of the loan, such as insurance or some interest. This is followed by a description of money that the lender will hold in reserve. This can be for property taxes and possibly insurance. The next section will deal with charges connected with

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your's alone, or they could be for those people who worked on the title like an attorney or notary. The next part will state the charge involved with transferring the title to you. You will then be informed of additional charges that may come with the loan, like a pest inspection. The final segment of this form gives an estimate of all these costs combined, so you can settle (obtain) the mortgage.

The HUD-1 or HUD-1A is similar to the Good Faith Estimate. Much of the information given is the same on both forms, but there are two key difference: 1) presentation of the data; and 2) the detail provided. The Good Faith Estimate is easier to read, but neither document is difficult. You need to take the time to learn the terminology, and then these forms can make sense. The HUD form uses the government's general ledger codes for an item; it then describes what the code is ; then there is a column stating the charge that you will have for that item. You will find that there could be a lot of blank spaces where a charge should be listed. That means you will have no expense for that item. When I purchased my home, the lender decided not to have a survey done, since there had been a survey made two years earlier of the property, so consequently I had no charge in that space.

All of these fees can be questioned. Go over each line in these two forms, and see if the fee looks reasonable. Lenders may pad the numbers to make a little more money. Sometimes you may find that lenders you will charge you for the high end of possible fees. Individual inspectors, lawyers, notaries or appraisers can charge vastly different amounts for the same service. The charge depends upon our costs added to our desired profit. You could try to negotiate with your lender on these costs. Ask family or friends how much they paid, or do a search for providers in your area to find out what they charge.

The third document that you should review is the Federal Truth In Lending Disclosure Statement. This is a two page form. Page one has the quick breakdown of your loan, while page two contains an explanation. The top section of this form has the APR, the finance charge, the amount, and the total payments of your mortgage. Compare the APR to the interest rate from the lender. Differences here mean you have extra fees on your mortgage. These fees are detailed on the HUD-1 form. If you cannot discover why there is a difference, then you should ask your lender for an explanation. You can get a great rate from your lender, but it is the APR that you will pay. The remainder of this form goes over your loan basics: payment schedule; security and property insurance; late payments; prepayments; assumption policy; variable rates; required deposit; and some notes about interest charges and what to look for when you do not pay. Most of this should be easily comprehended, but I want to write a bit about three of the items. The assumption policy details if someone can take over your loan from you. Basically, if you decide that you cannot pay anymore, the lender will say if another person can take up where you left off, transferring everything to this new borrower. If the interest rate can change, the lender needs to explain this to you in a disclosure. If the variable rate box has been checked, then you should have this disclosure. If your lender is requiring you to make some type of deposit for the loan, then you will have this box checked.

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The last document is one that you may or may not receive, but I would request it if you have not obtained a copy. It is the amortization table. This breaks down your loan payments between what you are paying towards the principle and what you are paying in interest. I suggest you look at it, because it is a good wake up call. When you start paying your mortgage, you will find that most of your payment is going towards the interest. Eventually the balance changes, to where you are paying more towards the principle in the end. Here is the secret to paying off your loan early and for less money: you want to pay more towards the principle each month than the interest. The lender will not let you pick the split between interest and principle, so each month you need to pay something extra towards the principle. The quicker the principle goes down; the less total money that you will pay in the end.

None of these documents are truly hard to understand. Even with some legal jargon and unfamiliar terms, you can take some time to master them. My experience was that so much was going on in my life outside of the loan itself that when presented with so much, I did not know what was important to review.

### *Part 4- A description of the closing paperwork*

Closing is the tying up of all the loose ends of the contract negotiations which have taken place between all of the parties. The paperwork included at this step will be any papers that need to be completed to have the transaction go through. For this reason, the paperwork can be different from closing to closing. Another difference in the documents will be due to the regulations of the state in which the contract is taking place. The participating parties at this event will (or could) be the buyer, the seller, the Realtor, the lawyers, the title company representatives, anyone holding the power of attorney for someone else involved, the lender, and possibly any contractors who are expecting to be paid at this point.

There are five common sets of papers to be dealt with at this stage: mortgage documents; the sales contract; the tax certificate; the title insurance forms; and the earnest money agreement. I dealt with the mortgage paperwork in the last post of this series, so let us go over the basics of the other forms that you will be initialing and signing on this day.

When negotiating for the purchase of high dollar value goods like a home, the seller, as well as other parties to the deal, will want to know that you are serious about the purchase. To show your willingness to proceed with the negotiations, you will be asked to set up an escrow account with a third independent party to hold money in earnest. This escrow account is not the same as the one that the lender will establish for paying the taxes or (maybe) the insurance. It is just for this good faith money. The idea is that you could lose this money if you do not behave honestly in the negotiations. The independent party holding this account will be a title company. The document which states how much money is being held in earnest, and what could cause you to lose it, is called the "Earnest Money Agreement". This money can either be returned to you or applied to an expense at closing. The only way that you could lose this money is if you act in a rash manner by not negotiating in good faith when pulling out of the contract.

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The Tax Certificate is a simple form by the governmental authority overseeing the property taxes for that home. In most cases, taxes are paid to the county, who distributes it to the different agencies who will receive tax money from a property. This form will show the tax identification number for the property, who will be obtaining money from the tax, how much tax was paid in the last tax period, and if the tax was paid. There will also be a technical description of where the property is located. This will be a lot number, block number, subdivision name, and maybe some other code used to distinguish the property on a map.

The Title Insurance Form or maybe a Title Search Form will be presented to you. A title company oversees the transferring of the title from one owner to the the new owner. To accomplish this task without problems, they need to make sure that there is no one else laying claim to the home involved in the sale. They will also check that no firm has a lien placed against the property. A lien is a means for a lender to collect a debt when a house is sold. A title search goes through official records of the home to see what might be out there. Title insurance takes the protection a step further. Once the search has been done, and it has been found to be clear, title insurance will protect you from anyone showing up at a later time claiming that they own the land. In cases of divorce or inheritance, there may be records that are not filed with the county that may give another person claim to your home. With title insurance, your legal costs are covered. Title Insurance documents go over everything that was discovered during the search, and they will deal with information about the company that is providing the insurance.

The last set of papers that I want to discuss are the forms for the sales contract. These contracts will be worded and presented in such a way that they comply with the regulations of the state. You or your Realtor or your lawyer will have been negotiating with the seller or his representatives to what will be involved in the sale of the home. In theory and practice, you should already be aware of all of the terms of the contract when it comes to the day of closing. If negotiations are still taking place at the time that you are signing these papers, something is terribly wrong. I mention this fact because closings can be contentious, and arguments can erupt at this point, but this is not the standard, and it is not the way to do business. When I am closing on a deal, any deal, and I find myself facing this situation, I walk away, for I know that something can come up later. The sales contract will list of the points dealing with the sale. There will be forms stating the terms that you have agreed upon, and about the price and financing of the home. If there are any special considerations to the deal, there will be a form covering what those considerations are. They could be that the refrigerator stays in the house, or the seller agrees to purchase a home warranty plan. There will be statements about the lawyers or Realtors role in these negotiations. The property being sold will be detailed. There should be no surprises in this contract.

What forms should you take the time to read during this process? Under normal circumstances, you will not be doing a complete reading of any of the documents at this time, and you probably do not need to read them. I would suggest taking the time to glance over them to check that this is what you thought you were agreeing to

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buy. Whoever is handing you the forms, and whoever is assisting you, will be giving an explanation of the paper that you are being asked to sign. No one should be rushing you through forms. If they are, then you should stop to see what it is they do not want you to examine. You can expect closing to take as much as four hours. They will be making copies of everything that you have signed, as well as any cashier checks that you provided to make payments.

### *Part 5- Insurance Matters*

I think that once a week I will am asked a question about insurance. There is no topic more important to us during this period of buying a home, which is harder to comprehend. The reason for this is that it is easy to compare apples to oranges with insurance. Before going into what forms you may encounter, I want to explain a little about how insurance works. Basics principles of insurance are not always fully understood.

In a way, insurance is an organized wager. You place a bet with a company that if something bad happens to your house that they will pay for it. The company tries to mitigate their possible loss with some rules. The firm will say what they will wager on, and how the wager will be handled. If nothing happens, the company gets to keep the money, but if something goes wrong they pay for the repair. Into this bet steps the government with rules of their own, so that a company will not take unfair advantage of you. Each state will dictate the rules of the game to insurance companies, and these rules deal with things that can typically happen in their area. In Texas, floods and hurricanes effect much of the state, so the rules focus on those disasters. Colorado would not have exactly the same concern. There will be some state agency, usually called a department of insurance, that will tell insurers how to behave, and this agency will also be a source of information for you. (Check their website).

One question that I had this week was about deductibles. Each firm will have their own specifics, but I have found that there are two basic types. One type deals with each claim. Let us say that you have a \$500 deductible, and you have a claim for roof repair which is covered by your insurance. The repairs cost \$6000. You will pay \$500, and the insurer will pay \$5500. Another type of deductible can deal with the entire year's claims, instead of individually. For example, you have a \$2000 deductible for the year. Your first claim is for \$500 for a water heater repair. Your next claim is for some minor roof repair for \$1500, and your last claim is for foundation repair for \$3000. You would pay for the water heater and the roof ( $\$500 + \$1500 = \$2000$ , the amount of your deductible), and the insurer pays the \$3000 for the foundation. The deductible is the amount you pay. If you are willing to pay more, your insurance will be less. From my knowledge, homeowner insurance policies deal with a deductible in the first manner.

Alright, what does your policy cover. Simple answer: beats me. Each insurer may be told how to behave by the state you are in, but they can cover more or just to the bare minimum of the state's requirements. One of the most common problems faced by homeowners that cause concern over if it is covered or not is water leaks. Since

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water leaks can cause so much damage outside of the busted pipe itself, many insurers do not cover this on a standard policy. You need to ask if a water leak is covered, if this is a worry to you. Let us move onto the forms, so you can see what your policy covers.

Like the other paperwork involved with your home, you will find many disclosure forms. Some will be state required, while others are from the insurer. Although insurers are not loaning you money, they are working like any other financial institution. This means that part of their process in deciding what to offer you and whether to deal with you has some relation to your credit and financial history. Insurers use their own version of a FICO score to make this assessment. All of this leads me to the point that part of the disclosure forms will look very much like forms that you get for credit cards or loans. Privacy statements, credit information disclosure, consumer bill of rights, consumer remediation form are all disclosures in this category. I take a dim view of these documents, since they seem to simply be informing you of how they company will protect itself if you have a grievance. A cynical view I know, but all financial institutions behave in a similar fashion in this regard. The main disclosure that you should review will be about homeowner's insurance in your state. This form will provide with the guidelines that the state requires the insurer to abide by. Outside of the disclosures, the first document that you will see will be a Premium Statement. This is the invoice for the policy. Like any credit card statement, it will give you what you owe, what the total amount due is, when it is due, and some type of identification number for the policy.

Now we get into the meat of your policy, the Homeowner Policy Form. This page or two will actually be sparse. You need to look at it in conjunction with the disclosure about the insurance policy guidelines for your state. The form frequently has three columns: what is being covered; what amount will be paid out for that item (this column is called the limits of liability); and how much it will cost you for that item (the premium). Each line item is negotiable, but your lender may have certain requirements about what coverage they want, and your state may be in on requirements here too. Basically you will have coverage for your home, other structures on the property (a shed or detached garage), your personal possessions either on or off the property, your personal liability to others injured on your property and their medical payments for said injuries, a payment to you if you are injured, and a list of other items which are not normally covered in the insurance, but that you want. The Policy Form tells you how much, and the guide will explain the details of the coverage. By fudging the numbers on the Policy Form, you can effect how much you have to pay. As with the deductible, you have to find an amount you are able to pay. I am a bargain hunter, and some of my furnishings were gifts or salvaged items from companies. I did not pay for them, so I do not know what it would cost to replace them. I might have to pay \$80,000 to replace these items if they are lost due to a fire, but I could decide that I will just keep to my ways, and try to find free items again. For personal property, I could say that I only need \$50,000 in coverage to replace my goods. I am willing to take a \$30,000 hit, because I know that I will find a way to cover it. This would lower my premium. Never zero out these

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coverages. If you did have a fire, can you replace your clothes quickly and cheaply? You need to determine what risk you will take when playing with these numbers.

You have gone through the Policy Form with your guide in hand, and you have made your adjustments balancing your acceptable risk with the requirements of the lender. The next form to look over will be the Exclusion Statements. Each insurer will determine items that they will not deal with in their policy. This could be a swimming pool, a trampoline, or if you own a certain breed of dog. Whatever it is that they are not including in the policy will be clearly mentioned, so check if you have a concern. The agent will inform you of a way to deal with an item that you do not want excluded.

You may have heard about Home Warranty Insurance. This is not a homeowner's policy, but it can be a good policy for new homeowners. This type of warranty insurance is becoming popular in home sales. The scope of coverage changes from firm to firm, and I have found that they are increasing what they will cover rapidly, in order to get you to purchase a policy. Deductibles are usually \$50 per incident. The policies cover appliances and mechanical systems not dealt with in the homeowner's insurance. Say that your air conditioning gives up, a technician will come out to repair it, and all you have to pay is the \$50. The policies run around \$400 per year. If you are worried about the equipment in your home, this may give you peace of mind.

Well that completes the whirlwind tour of the paperwork.

### *Part 6- The End of the Papers*

You have finally closed on your home, and you take the paperwork that has built up to put in the bottom of the desk drawer, because you will not need them again. You have made a mistake. If you are like me, you will find that in the first year or so after moving into your house that you will need to go back to these documents a few times to deal with something that has surfaced. At times, I felt like I had a second job dealing with insurers and lenders.

Your first step should be to take some time to review the papers to see if there is anything that you missed. You do not have to review them immediately, or all at once, but you should become familiar with them. When reading them, place a note pad nearby to write down important information. Type this up to be a cover sheet for those documents. This is a good way for you to understand what you have read. You may also want to create a contact sheet for the different firms involved with the papers. List the firm, a contact person's name, account number, phone number, address, and what the firm does. Keep this in a safe, but accessible place. Find a location for all of the papers dealing with the house. This would include the documents that I have been discussing, but also such things as manuals for the alarm system or invoices for products or work done on the house. By keeping this all together, you will have one file to go to concerning your home, so information will be easy to locate. You will never know which document will become the most important one to have, until you have the need for it, and unlike renting, you are now responsible for everything.

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I think you should now have a starting point. Stay calm, none of these documents are that intimidating, and you can get through them.

### **What does a home inspector do?**

*The information on the RE Investors page explores basic details of an inspection, and the report is explained below.*

A home inspector is a professional licensed by the state of Texas to inspect your home to find if there are any issues, which may cause problems for you.

This is a very general description, so I have heard inspectors compare themselves to general partitioning doctors. If you feel sick, you go to your doctor, who makes a determination of your illness and prescribes a cure. He may send you to a specialist to discover more precisely what is wrong with you, when necessary. A real estate inspector does the same thing for your home. We find areas of concern, and we point you to the specialist when needed.

Sticking with the idea of a doctor, you know when you have a cold, so you take a cold medicine. You may feel that you could examine your own home, and repair the item yourself. It is true that this is possible, but an inspector has been trained to look at all aspects of your house to determine its condition. It is also important to remember when you are likely to be using an inspector, when buying or selling a house. A lot of things are happening around you during this process, and it is hard to be objective. We all see our own house (or the one we desire) as being fine (if not ideal). The inspector is there to be a voice of reason.

Remember the inspector is there to offer you advice as to the condition of the home. He should not be advising you on whether to buy the home or not. Buying a home is a personal decision, which should have little to do with the property inspection report. There are no perfectly sound homes, because homes are subject to change like the rest of us. You may find that you can live with the problem discovered by an inspector, or you may want to address it in some way. If you are a seller, you might want to repair the item before selling, and if you are the buyer, you might want it repaired before purchasing. This decision is up to you and the other party involved in the sale. Also, the advice of the inspector cannot lead him to give you an estimate of the market value of the house. Real estate agents are trained in such matters. Realtors know the market, that is their job, and they know how to get the best price for you. Discuss your concerns about the property inspection report with them, for they are the best people to tell you how to proceed with the other party involved in the sale.

If an inspector knows so much about the house, he should be able to tell you how long the mechanical equipment in the house will last, right? Well, let us go back to the doctor analogy. If you walk into your doctor's office, will he be able to tell you how long you will live by giving you a general physical? I would be surprised if he could. He might look something up on a life expectancy chart if you pressed for



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answer. When a client asks how long will the water heater last, I have heard a few inspectors say that it will last as long as the warranty (life expectancy) and one day. Truly, we cannot answer this question with precision. I know of a roof that was supposed to last fifteen years, which survived for forty years. However, I know of roofs which failed before their fifteen year warranty was up. This brings me to the last important point of what a home inspector is doing. He is giving you the facts concerning the house on the day he inspects the house. Anything can happen to the home after he inspects it. Hail damage from a storm; junior driving the car through the garage door; or someone repairing that leaky faucet.

A home inspector should be the best source of advice on the state of your desired home.

### **Understanding Your Report**

The time you spend discussing the job that the inspector has done for you will be brief compared to other aspects of the purchasing process. You should ask questions of the inspector, so you understand what he has found. He will present his findings in a written report, which is produced according to the standards outlined by the Texas Real Estate Commission.

A report from one inspector to another should not have too many differences, if each inspector is investigating the house properly. A report could state very plainly the observed conditions, or it could become extremely wordy, but the intention of any report is to inform you of the condition of the property at the time of inspection. Inspectors may have different ways of stressing a significant point to you about the house, but when the inspector suggests that a licensed or qualified professional who specializes in a certain field examine a component of the house, you should realize that as an area you should pay special attention to. It is up to you whether the specialist should be called in, so determine if the issue is important enough to you to warrant further investigation. Do not be afraid to ask the inspector about his report. An inspector is there to help you understand the state the house is in, so he should be willing to answer any question.

The report will be divided into six main sections: Structural Systems; Electrical Systems; Heating, Ventilation, Air Conditioning; Plumbing System; Appliances; and Optional Systems. The report also includes a statement from the Texas Real Estate Commission, which basically describes the purpose of the report. Here is where reports from various home inspectors can differ. On the first page, you will find a section entitled "Additional Information Provided By The Inspector". This section can include statements by the inspector about how his report is created, or it could contain information about conditions under which the inspection was or will be performed. The inspector could leave this section blank, but if he does not, the information there is usually about how, when, or under what terms the inspection was performed, and not about any specific concern for the house under investigation. Lastly, there is an "Additional Comments" section. These comments are up to the inspector. It might state some details of how the inspection was conducted, or it might state something that was in the report for emphasis, but it could also contain a

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statement by the inspector of the conditions under which the report was produced. It might also contain concerns about the house that are not part of the normal inspection. You should read the last two sections mentioned, since each inspector will place his own information in those spaces. Ask questions of your inspector, if something in these sections does not make sense to you.

As for the six main sections, the inspector is not there to find what the cause of a problem is or to fix the problem; he is there to determine if there is a problem. He may or may not know why the air conditioner is not working, but he should not tell you. Why, you ask? Well, did he spend all his time taking apart the unit? Probably not. He spent his time looking at all of the house, so he would not have devoted enough time to accurately determine the real reason for the air conditioner's failure. To determine the cause for each issue with the house could take days, and the inspector is spending about three hours at the home. For purchasing a home, you need general information about the condition, not exact causes. The inspector is looking at the parts of the house which are easily accessible. He will not move furniture or boxes out of the way to inspect an area, unless he can easily do so. The next sections will discuss in general what a home inspector is looking at for his report.

### **A. Structural Systems**

This section of the report consists of eleven parts: foundations; grading and drainage; roof covering; roof structure and attic; walls (interior and exterior); ceilings and floors; doors; windows; fireplace/chimney; porches, decks, and carports(attached); and other.

The foundation is the base on which your house sits. Unless your foundation is on bedrock, it will move due to the soil condition around your house. The inspector will be looking at the type of foundation you have, and if the foundation is functioning the way it should . Most of the foundation is under the ground, so the inspector will be reporting on signs to indicate what is happening. He will tell you the type of foundation, and he will give you a written opinion on its performance.

Connected to the foundation's performance is the grading and drainage. If the ground is too dry or too wet, the foundation can move as the soil around expands and contracts with the amount of water in it. When the soil is too high, water and insects have better opportunities to do damage to your walls and siding.

The next section is roof covering. No one can tell you exactly how long a roof will last, but an inspector will be indicating signs which might lead (or which have already led) to problems with water or pest damage. The inspector will be writing down the signs which indicate current condition, so you can look to see if this worsens. He will tell you the type of covering, and indications as to how it is functioning.

Roof structure and attic will be discussed next. Ventilation of the attic is important to the life of the roof as well as cooling the house. The inspector will also mention any concerns about the support system of the roof. Here is where he will use the specific terms for the members of the structure, so ask what he means by a purlin, if

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you do not know what it is. He will tell you how he inspected the attic. The inspector should comment on attic insulation and pest problems here.

Walls are observed from interior and exterior. Although an interior wall and exterior wall are connected, they are treated separately since a problem may occur on one side but not on the other. Condition and deficiencies in steps and burglar bars will be reported on here. A key item to look for on walls are cracks larger than an 1/8 of an inch wide, since these may indicate more of a structural issue. The inspector is concerned with signs in the walls that are related to structural problems.

Moving on, the inspector will write about the ceilings and floors. He will be looking for cracks, water stains, condition of the coverings, and signs of structural problems. He will not report on a bad paint job, since this does not effect the house's structure.

Windows actually consist of the framing around the unit, the unit's frame and glass, the unit's sealing from weather, and the screen. A concern for the inspector is if the glass should be tempered or not in certain locations. Tempered glass should be installed in locations where there might be a chance of someone going through the window. Screens are important in keeping out pests, and possibly preventing some damage to the glass.

Fireplace/chimney section will list any safety concerns or deficiencies that could lead to fire and improper fireplace operation. Safety issues for preventing injury to the owners will also be noted. Checking for creosote build-up is such a concern.

Not everyone may have a porch, deck, and carport(attached), but if they are present, their structure can affect the house. Main concerns in this section are structural integrity (such as wood rot) and safety issues (such as whether the deck needs a railing or not) . The last section, "other", is a place for the inspector to put information about the structure which did not fit elsewhere.

### **B. Electrical Systems**

This section of the report contains two parts: service entrance and panels; and branch circuits-connected devices and fixtures.

After a section with eleven areas, coming to a section with only two topics would make it seem less important; however, the inspector has a lot to check here.

The service entrance is the power cables coming to your structure and the equipment used to bring it to your main panel. Your main panel (sometimes called a breaker box) could be inside or outside, and it might handle everything for your house, or their might be sub-panels receiving their supply from the main. The inspector will mention safety and installation issues concerning the service entrance and panel (such as are the over head wires too low), if the breakers are sized correctly, and the condition of the panel (such as a missing cover).Moreover, he will check to see that you can turn off the main power quickly, for when you have an emergency.

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The next section deals more with the interior, but it will contain some exterior items. The branch circuits are the wires in your house that are connected together with one circuit breaker in a panel. The inspector cannot see the wiring in the wall, but he does have equipment to test if the wiring is functioning properly. He will report on the type of wiring. He will look for GFCI (ground fault circuit interrupter) receptacles in locations such as the bathroom, kitchen, garage, and outdoors. This type of outlet is needed in locations where the outlet could become wet. The inspector will look for loose, missing, or hazardous outlets and switches, and fixtures connected to the electrical system. A fixture will be items like a fan or a light.

### **C. Heating, Ventilation and Air Conditioning Systems**

The header for this section is usually referred to as HVAC systems. Throughout the country, there are different ways for heating and cooling your home, but the most common method in Texas is the forced air system. This section deals with this system in three parts: heating equipment; cooling equipment; and the ducts and vents.

A proper check of the HVAC system can be carried out by an HVAC professional, which some home buyers prefer. However, the home inspector will carry out a check that will indicate if further investigation is warranted.

The basic components of the heating system are simple enough: some type of unit to heat the medium (water or air) which will heat your home, and another unit to deliver the heat to the rooms (radiant under floor heating or forced air). Of course there is more involved than this to the system. The inspector will check the condition of the components, look for signs of wear, and see how the system is functioning. He will tell you the type of system and its energy source.

Like the heating system, the cooling system does the same thing except for cooling. The outside condenser unit and the thermostat are usually listed here. The inspector will state the type of system, its energy source, its condition, and its ability to function. Condition and ability to function reasonably are inspected. Cooling equipment is not checked when the outside temperature is below 60 degrees Fahrenheit, since damage to the unit could occur. The ducts and vents are the usual means for delivering your hot and cool air. Mainly condition, material, installation, and their ability to deliver air are checked.

### **D. Plumbing System**

This section deals with the water flowing through your house. Problems here frequently lead to damage to the structure if left unchecked. (Think of a pipe leaking onto a wood beam). There are four parts discussed under plumbing: water supply system and fixture; drains, wastes, vents; water heating equipment; and hydro-therapy equipment

The first section, Water Supply and Fixtures, deals with how the water enters your home, moves through your home, and how you access it through fixtures. The fixtures will be faucets, sinks, toilets, showers, bathtubs, laundry tubs, bidets, and

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hose bibs. Deficiencies in the parts, leaks, incorrect installation are reported. Another concern of this section is if dirty water has the chance of getting into your drinking water, so there needs to be some type of way to prevent back flow. The inspector also will check to see if there is adequate water pressure in the house.

The second section, Drains, Wastes, Vents, deals with how the water is leaving your house. The drain and waste takes the water out of the house, while the vent is to supply air to the pipes so water can flow freely. Think of a child sipping liquid into the straw, and then holding the top end of the straw to prevent the liquid from rushing out; the air is needed for a smooth flow.

The third section, Water Heating Equipment, deals with how your house is supplied with hot water, and what the energy source for the heat is. Condition and safety of the equipment are big concern for the inspector here. The TPR (temperature, pressure, relief) valve is a safety feature on the tank to prevent the heater from exploding, so this is a major concern.

The fourth section is called Hydro-Therapy Equipment, which is better known as a whirlpool or a Jacuzzi, which are name brands. The inspector will be looking at operation, safety, and leak concerns.

Leaks from pipes may be reported somewhere in the Structure part of the report, since some water damage could be from a roof leak, or it may be from an inaccessible pipe. Signs of leaks around the fixtures, or for the potential of a leak causing damage will be reported in this part.

### **E. Appliances**

The fifth part of the report deals with those appliances which are considered built-in. They are : dishwasher, food waste disposer, range hood, ranges/cooktops/ovens, microwave cooking equipment (when mounted), trash compactor, bathroom exhaust fans and/or heaters; whole house vacuum systems; garage door operators; door bell and chimes; and dryer vents. Notice that the clothes washer/dryer and refrigerator are not listed, since many people take these with them. Even though the other appliances are considered built-in, a seller could change them out before he sells the house to you. Some inspectors will take down the serial numbers or other information to help you identify the equipment. Ask the inspector about his practice in this regard, for you may find that the inspector looked at some new equipment which was replaced with a broken one. If you wish the inspector to check another appliance, such as the refrigerator, make that clear to him when discussing hiring him (he may charge extra). For all appliances the inspector will be looking at deficiencies in condition, function, and safety.

### **F. Optional Systems**

The sixth part of the report has two sections: Lawn Sprinklers; and Swimming Pools and Equipment. This is a section where you will have to ask the inspector if he will inspect the equipment, since it is not required for him to do so. Not all inspectors

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will go over these systems, since it may require additional knowledge on the part of the inspector. Some inspectors may simply report on general safety concerns with this equipment. An inspector will probably ask for an additional fee for this equipment inspection. Pools are frequently inspected by pool suppliers, since they have better analysis tools for the job. Lawn Sprinklers can add an additional hour to the inspection, which some buyers and sellers do not like.

An inspector will look for adequate water flow and pressure, condition of the parts, and leaks in a sprinkler system. With a pool, he will state the type of pool construction, along with any deficiencies in the surfaces or equipment.

### **G. Comments**

This is the last page required by the Texas Real Estate Commission. It is meant for notes or other information the inspector wants you to have, but he has not placed in the body of the report, since it did not fit there. The inspector may leave it blank. Any information in this section should be mentioned by the inspector.

### **Other Pages**

Each inspector is different in how detailed his information is presented in the report, but the intention of this document is to tell you what you should be concerned about in the new home. If an inspector boasts that his report is forty-five pages long, can you easily find what you need to know before closing? But then again, that forty-five page report may contain information that is very useful to you after you buy your home. Some inspectors wish you to have the basic facts to help you and your real estate agent make a quick decision about concerns which need to be brought up to the seller. Afterwards, a report like this might not help you understand why the inspector said something was wrong. In either case, judge the report by the thoroughness of his investigation, and his willingness to explain it to you.

Personally, I prefer a basic report, so you can quickly access the information, so you and your realtor can determine if you need to discuss repairs with the seller. I try to show as much as possible to my client during the inspection process, but this is not always feasible, so I offer to come out after you have purchased your home, when we can go over the home in a relaxed fashion. Find out about your inspector's practices in this matter. If your realtor is recommending an inspector to you, then that inspector delivers the information in such a way as to make it comprehensible to that agent, which is good for you, since the agent will know what to act upon quickly. However, it is your report, so it should be beneficial for you as well.

### **Significant Changes to Your Home Inspection Report**

**As of February 1, 2009, we home inspectors have been using a new property inspection report.** This new form reflects changes in a home inspector's standard operating procedure as defined by the state of Texas, but it is also meant to clarify what a home inspection entails (what you can expect from your home inspector). This past week found me reviewing my original posts on the topic of "Understanding Your Report" to see how I should update it. Most changes to our operating procedures are refinements that are important to my profession, but they do not significantly change what I had previously wrote. Instead of changing the headings of those pages, I thought it would be better to summarize factors that the end user of a home inspection report should know.

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**The first major change to the property inspection report is the opening paragraph.** The old form had a readable opening, but it took some careful reading to understand fully. In the new report, we have a longer introduction written in fairly clear terms. Much of this is dealing with what I had written before in a clear fashion, so I want to hit upon the changes in this section. The most significant change is in how items are reported. We use to state that an item was "in need of repair" (this was indicated by checking the "R" box); however, consumers were confused by the fact that we checked this box when an item did not need to be repaired. Sometimes a home inspector may have been indicating that there is a feature that we consider to be important, like a GFCI outlet in the kitchen, but the outlets in the kitchen worked. Now inspectors are looking for AFCI breakers for the bedrooms. This is a nice safety feature, but it should be up to the consumer of the report to decide to have these installed. That is the main point. By stating "in need of repair", there was an impression that an item had to be fixed, but this was never the case, and the new introduction makes that statement clear. A buyer cannot force a seller to make a repair. They never could. This should have been part of the negotiation. The new indicator is "D", which means that an item is deficient. We have to understand that a home may have been built well for its time period of construction, but we are finding new ways to improve the construction of our homes; a home inspection report informs you of those changes.

**The next significant change is the list of items inspected.** Actually, there are no new parts of the home being inspected, but where a home inspector's findings are listed has been refined. Under "Structural Systems", we now have the heading "Stairways". These were placed under "Walls" in the old report, but the awkwardness of listing issues there has been cleared up by giving it a separate section. Along these lines, you will find some clarifications in the "Appliances" section. "Other Built-in Appliances" and "Whole House Vacuums" have been moved to the optional systems part of the report. These sections were rarely used in the old report. In the "Appliance" section, you will also see that bathroom vents are now handled under "Mechanical Exhaust Vents and Bathroom Heaters". Bathroom heaters were typically examined by home inspectors, but there was no clear space to write our observations down, so this change helps us find that information in a consistent location. The "Optional Systems" section has the two additions mentioned, and they only other change is the name of some sections to be more all inclusive of what is being examined. That means we now look at "Gas Supply Systems", "Private Water Wells", and "Private Sewage Disposal (Septic) Systems".

**The biggest change to our inspection process comes in the "Plumbing" section.** Home inspectors had a loose way of inspecting this system when compared to the new requirements. We have to report on static water pressure, which should be between 40 to 80 psi. This is the acceptable range for everything in your home to work well. Before, we just looked at functionality and signs of pressure issues. This defines that we have to check exact pressure. We also need to look if there are ways to reduce the pressure when it is too high. I reported on the location of the meter and main shut off valve in my reports when I saw how some buyers were not sure where these could be. This is now a standard practice for all inspectors. Lack of shut off valves for individual fixtures is a good step for the home buyer. Tub valves frequently cannot be accessed. This is good to know for future repairs. If there is a pressure reducing device in place, we need to look for an expansion tank for the water heater to ensure its proper operation.

**As stated, home inspectors will be refining how they look at aspects of your home, but the basis is the same.** I believe that these changes will be a good for the industry, because I see them as making it better for the consumer of these reports.

### **Who should do the repairs in your new home?**

Personally, I love working on my home, and I will tackle many jobs, but I have to admit that I have made a mess of things at times. If I am selling a home, I would always call in a professional to ensure that the job is done correctly. As an inspector, I have seen home handy

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man repairs which simply put a neon sign on the fact that I had to check on what is going wrong here, and that it might not be fixed. However, some jobs are handled well by the do-it-yourselfer. Think about your comfort level and knowledge level of the task at hand. If you believe you can handle it, then do so. When it comes to plumbing, electrical, HVAC, or structural work, I would recommend that you always use a proper professional, even when you are not selling the house. Why? You ask. Well, you are going to be living there, and you will not want further problems in the future. For example, a home I inspected had a nice deck, which had been built about five years ago, but I noticed that the columns had an earth to wood contact, which was starting to cause the deck's support system to rot away. In a year or two there could be a collapsing deck. The deck was built by a professional according to the seller, who admitted finally that it was a relative who had built it. The relative was an appliance repair man, who had not fixed the dishwasher well either. This brings me to the point of a proper, or qualified, professional. Anyone can claim to be an expert, but making the claim does not make it true. Make sure that the person who is working on your home knows how to do the job right.

### **What you can do to avoid future problems with your home**

*For other ideas on home improvement, I write on ideas for this topic on my blog, in the Technologies for the Home category. The blog can be accessed by going to the Links page above.*

Having a qualified firm come out and inspect your HVAC, pool, or other equipment in your home on a regular basis is a great way to prevent major problems with their minor service jobs. If you use your fireplace, then have it cleaned to prevent creosote build-up or birds' nests. Cleaning your HVAC ducts may be needed. These are jobs for professionals. I realize that these jobs being performed by firms may not be an option for everyone, so you should at least look at the equipment once in a while to check if you should call some one in. If you feel that something is wrong, it probably is.

The following list is meant for anyone. These are tasks which all of us can do. Although we spend quite a bit of time in our homes, you should take the time to look around the home to see if everything looks all right. If it does not, have it repaired.

#### **Outside**

- 1) Keep the moisture level the same around the foundation to help prevent movement (for example watering when it has been dry for awhile, and making sure that water does not sit along your foundation after a rain).
- 2) When adding mulch to your garden beds, you should not build up your bed to the level of the siding of the house to help prevent damage to the foundation or siding.
- 3) When creating new garden beds, think about how water can run out away from the home. For example, retaining walls will need weepholes to let water out.
- 4) If your walls have green or dark spots over them, clean them by either pressure



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washing or with a little bleach and water; this helps prevent deterioration to your siding.

5) Keep gutters clean, and downspouts fixed to ensure that water is going away from your home.

6) Clean debris off your roof to prevent damage to your roof covering.

7) Keep plants away from your walls and condenser(outside air conditioning) unit, to help maintain their function.

8) Repair or replace window or door screens around your home. This will keep insects out when you need to open the windows or doors, like when dinner is accidentally burned.

9) Caulking around windows and trim can help maintain energy efficiency and water damage. Remember the holes in your brick siding running along the bottom of your house are for letting water escape from behind the siding.

### **Inside**

1) Change or clean your air filter as needed, which frequently is around every six months; however, it is suggested that you should check filters monthly. This helps maintain your HVAC system.

2) Clean the filters for your range hood every so often as well to maintain its function.

3) Fix faucet and pipe leaks as soon as possible to prevent higher water bills and potential damage to cabinets and structure. Faucets sometimes just need a new washer.

4) Check and replace batteries in your smoke detectors for your safety.

5) If you do not use your dishwasher, use it every so often to help maintain its seals to prevent it from leaking.

6) Make sure all of your switches and outlets have a coverplate.

7) Drain your water heater once a year to remove the sediment which builds up on the bottom .

8) Check the seals of your refrigerator by placing a bill between the door and body of the unit when you close the door. There should be some resistance when you pull it out. The coils in the back and the equipment below the unit should be kept clean to keep the refrigerator operating well.

9) Check and add attic insulation. If your insulation is not as deep as your rafter boards, you should add more.

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These tips should be in most people's ability range. I would like to stress again that you should have a qualified professional check your home's equipment every so often; these check-ups can extend the equipment's life and performance, but doing small things to keep up your home can save you money as well as preventing future costs.

### **Energy Efficiency and Water Conservation**

*There are more articles on this topic found on my blog which can be accessed on the link at the bottom of each page page.*

Some of the tips in the last section will help keep your home energy efficient (caulking and insulation) and conserve water (fixing leaks).

In addition to these hints, you can upgrade your appliances to units that have an EnergyStar rating. This is a government program which helps ensure that products are efficient. There are even entire homes built to these standards. More information is available at [energystar.gov](http://energystar.gov) website. There are products now available which help reduce the heat in your attic by being placed on the underside of the sheathing of your roof. One type is a paint like product, while the other looks like the aluminum material sunshade for your car. Also, when you are replacing your roof covering, go with a lighter shade color material to help cool the attic. Using fluorescent bulbs in your fixtures reduces your electric bill, and they will last longer, but leave them on when you are going in and out of a room, since they cost more to start up than incandescent bulbs. Programmable thermostats are relatively easy to install, and they can reduce costs by letting you control the temperature in the house at different times of the day. There is a window screen material which is supposed to help reflect the sun's UV rays to help keep rooms cooler.

Water Heaters can be fitted with an insulated jacket. These jackets are suggested for electric water heaters, not gas heaters. Some experts say that these jackets do not help at all. It is also said that water heaters should always be in the attic or garage to help them keep the water hot. The unit's water lines should be insulated to help with its efficiency. The heating elements (anode rods) for the water heater should be replaced every three to four years to maintain its ability to heat well. The water temperature should be set at 120 F. You could replace your old water heater with an on demand system, which will only heat the water when you need it.

Ceiling fans should be operated , with the thermostat turned up to a slightly higher temperature. This will make the room feel cool, while the HVAC system does not have to work so hard. Reversing the fans during the winter, helps with heating costs.

Frequently the city will send out a flyer with the water bill which mentions water conservation ideas, but here are some ideas. Fixing leaking faucets and constantly running toilets is the biggest help. By using low-flow heads on faucets and showers you can reduce your water bill as well. Choosing plants which are native to your area or are drought tolerant can help reduce watering, but you need to remember that all plants have to be watered till they are established. Deep watering (watering longer in

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a spot) to encourage roots to go deeper for their water will cause you to water less often. This is particularly true with grass. Also, keeping your grass higher and leaving the clippings on the lawn helps reduce its need for water. The clippings act as a mulch. Mulching garden beds helps plants retain water. There is debate over this statement, but it is generally believed that a shower will use less water than a bath, but I think it depends how much water you use in your bath and how long you shower. Doing larger loads of laundry, instead of smaller loads more frequently, saves water. Another debate statement is about washing dishes, since some say that waiting and filling a dishwasher saves water over doing them by hand, but some say that hand washing without letting the water run all the time saves more water.

### **Home Staging for the Seller**

*There are more articles on this topic found on my blog (under the category Real State Issues on the blog) which can be accessed on the Links page.*

What does a home inspector have to do with home staging? For most inspectors nothing, but I started out doing home staging before I became an inspector, and I find that the inspector training has helped me with this task.

Do you need a professional home stager? You do not need one, since most of it is common sense, but a home staging professional can be a benefit for those who do not have the time to do it themselves. What is the benefit of home staging? Staged homes frequently sell faster and for, or close, to asking price. Home staging is an affordable way to give your home a new look without a major remodeling.

Home staging has been a growing business in the last few years. Sometimes realtors make suggestions to their clients, sometimes home owners stage their own homes, and sometimes an outsider is brought in. The basic idea is simple enough: keep your home clean, simple, and organized. Clean does not mean cleaning in this case. Cleaning should be done before you stage your home. Clean means uncluttered. Simple means not extravagant. Lastly, organized means that the normal objects of our lives will be in a designated place.

Recent articles about home staging have failed to mention the first thing a prospective buyer sees: the front of your home. I do not hear the phrase "curb appeal" much from people involved in this job. However, first impressions are lasting.

Keep the lawn mowed and edged; this is especially important when you are not living there. Trees and bushes should be pruned, and garden beds weeded. Flowers are nice, but not as important as you might think. Keep the walkway clear. No one wants to maneuver an obstacle path to the front door. A new coat of paint goes a long way, even if your house does not need it right now. Garden ornaments can be fine, but it would be better to limit or remove them. New house numbers are great eye catchers, and they help buyers find your home. Fresh paint or stain on the front door is appealing. A red door is considered to bring good fortune in China, while it means the home has been paid off in the west. New entry door hardware leaves a great impression.

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The entry is the next stop. If you have a rug in the entry hall, place adhesive under it to prevent it from moving about. Rugs can look messy when askew, and you do not want to have some one slip on them. Do not place a lot of items here, like a coat rack, table, grandfather clock, and umbrella stand. One of these items is fine; the best would be a table with a mirror. Do not leave the mail on the table. It is best to have some type of box for your mail.

Moving into the house, let less is more be your credo. The buyer needs to see themselves living in your home. Basic furniture arrangements which go together are perfect. Matching lamps, slip covers with complimentary fabric, and chairs that match are important visually. Some family photos work well, but too many cause the buyer not to visualize themselves in the home. Create a designer look by pulling chairs, tables, and sofas away from the wall.

Toys from children or pets, magazines, newspapers, books, and other items of our daily life should be tucked away to be out of sight. Pet bowls fit into this category too. Use green plants to create an inviting feel. Never use silk flowers or fake plants, because no matter how nice they are, these items never come across as inviting as real ones. Wood blinds are far better than layered window treatments. Closets should look organized, where the back can be seen. Kitchen and bathroom remodels typically have a great return on investment, but they are not always necessary. The kitchen counter should be cleared of utensils and equipment. A coffee maker is fine. Dish towels and cleaning supplies should be removed. Windowsills need to be kept cleared. New cabinets are not always important, but new hardware can make all the cabinets look new. Inside the cabinets, keep plates and supplies neat and organized. Clear containers make the cabinets appealing, since you can see the back. Fresh fruit on a kitchen counter, or a potpourri basket in the bathroom, leaves a good impression. Bathrooms benefit from new shower curtains. Remove throw rugs from the kitchen, and place adhesive under rugs in the bathroom. Matching towels are important in the bathroom. Nothing should be on the refrigerator.

Bedrooms should also be free from clutter (no clothes hanging on that butler). The bed skirt, bedspread, and pillow covers should match for a well designed look. King size beds make the room look small, so you should consider queen size or twins. Also, clear out the items under the bed, since people will check there. Sufficient natural light is a selling point in bedrooms, and low wattage bulbs throughout the house should be removed. Do not leave much on top of your dresser.

If you do not have a home office, you should consider creating a space to look like one. Many people need to have a work area at home, even if it is just for bill paying. An empty bedroom or a large closet will work as an office space, or an unused corner will suffice.

Treat your backyard as you would your front yard.

The look of your walls can leave a lasting impression. The look of a wall can be easily changed by the buyer, but the seller should consider it first. Buyers might not like your choices. When my wife and I were looking at homes, we saw a home with a

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great layout, but my wife took a dislike to the bedrooms. The owner had used fabric with stuffing behind it as a wall covering. It was nice, but my tastes may not be your tastes. Wall papers should be removed. You should not use faux finishes either. Do not paint laminate, because the paint can easily come off. Bold colors do not appeal to everyone. My brother painted his walls white after moving in to his home. The previous owner had used colors like red and deep brown, which happen to colors in my home. My brother informed me that I might like those colors, but he does not. A shade of white or beige works well. Use the eggshell style of paint on the walls, with semi-gloss on the trim for the best results. I have to say that I do like semi-gloss on the walls since it can be easier to clean, so I use gloss for my trim, but again, this is not to everyone's liking. Do not paint switch and receptacle covers, since it appears sloppy. Take the time to tape off and cover the floor and furniture in areas to be painted. Painting the ceiling a lighter hue makes rooms feel bigger. Adjoining rooms should be painted the same color or a different hue of the same color for a designed look.

Let us not forget the carpets. Carpets should be a neutral color like beige. If your carpets cannot be cleaned to remove all spots, you should replace them. If your floor covering is not carpet, make sure it is in good condition. There should be no broken, peeling, or chipped pieces. Wood floor may need to be refinished. An engineered wood floor can be refinished once or twice, while solid wood flooring can be refinished more often.

The overall theme to these statements is that your likes will not be the buyers likes. Your house has to be seen as a place where anyone will want to live. To help you with staging your home, you should pick up the latest home decorating magazines to see what is in style. Catalogs of items for the home are helpful here, since the products are displayed in a designer setting. Maybe a furniture showroom can give you ideas. I would not buy new furniture, but I would try to make my furniture appealing. Cleaning the upholstery can help. Polishing the wood is great. However, if you have different pieces that you may have received from different relatives, or that you bought over the years, I would try to unify them with slipcovers. Reupholstering can be too expensive, but slipcovers are easy to make and clean. If all else fails, simply store the furniture away somewhere off property. Items that we have collected on trips or gotten as gifts can collect dust and crowd the spaces of our house, so they should be stored.

An often overlooked space is the garage. Many people no longer put their cars in the garage, since we keep so many other things in there. Install a storage system which keeps the items neat and organized, so a car(s) can be parked.

If you are keeping a lot in your garage, I would suggest finding somewhere else to store it. The buyer could want the space for a different use, so they need to be able to envision that use for themselves.

Your realtor can be a good source of opinions on how to stage your home. A

From [YourHoustonHomeInspector.com](http://YourHoustonHomeInspector.com)

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realtor will know what buyers are looking for, and what might be in fashion. Friends who can be objective are a great help. However if you find the task time consuming, a professional home stager may be to your benefit.

### **A Pre-Closing Checklist for the Buyer**

Each closing can be different, due to the people involved. Your best guide through this process is your realtor. So many things are happening, and this can be a confusing time, so you should rely on your realtor to guide you through it. Ask the realtor questions if you are feeling lost. The following list is a general guide to the events or items leading up to closing.

- 1) Homeowner's Insurance- required by your lender to ensure that the home will be repaired in the event of damage. 2) You will need to know your mortgage closing costs, which you will obtain from your lender. Take the time to understand your loan and the associated costs.
- 3) Other closing costs, which the realtor or title company will be giving you an estimate of.
- 4) Cashier checks for items 2 and 3 above. Find out from the title company and mortgage company how you need to pay. Most often, a cashier's check is needed for large dollar amounts and personal checks for smaller amounts. Paying by credit card never really happens.
- 5) Home inspection. More lenders are starting to require this. It is the best way to determine if repairs need to be made, which your realtor will use for negotiations with the seller.
- 6) Termite Report, which is called a WDI report (wood destroying insects). Like a home inspection, it is not required, but it is useful. If you are worried about termites, then you should have this inspection done.
- 7) A survey- required by the lender and/or the title company. If the seller had a survey done in the past few years, you might not have to pay for one yourself.
- 8) Home Warranty. This is an insurance which covers the equipment (appliances, HVAC) in the house. Sometimes the seller will pay the first year. If you are concerned about the equipment breaking down on you, this insurance can be a great way to reduce the cost of repairs.
- 9) Driver's License- for the closing at the title company.
- 10) During closing, make sure you receive any keys, garage door operator controls, and security and/or access cards or information.
- 11) Homeowner's Association documents- good to have beforehand, since there might be some costs connected with this (like a yearly fee).
- 12) Ask about any bills concerning the house which might be due. You never know what can come up here, if at all. But if the homeowner lives in the house after closing for whatever reason, state clearly who should be responsible for the

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utilities. Another bill could be the property taxes. Your realtor should have this resolved, but you should be aware of how these charges are being handled.

13) Title Insurance- this is an insurance which protects you from any problems which might arise due to a dispute over the title to the land and house. The title company does a title search, but if a claimant comes forward after they have done their search, it might mean a problem for you. Title insurance protects you from claims dealing with ownership before your purchase.

If you have dealt with all of the above items, you should avoid delays in your closing. You do not want to be discussing terms of the sale on the closing date.

You can also request to review your loan and title commitment documents before closing. This is usually provided to you, but you might want to make sure that you have them before closing. If you cannot be present at your closing, you will need a Power of Attorney. Check with the title company to see if they are all right with this, and if they have any requirements regarding a Power of Attorney. Check with your lender before closing about their requirements for a Power of Attorney. Some requirements will be that an original Power of Attorney must be delivered to the title company, for recording with the County Clerk's office. The title company will need to contact you via the telephone on the day of closing to see if you are alive, and if you have not revoked the power of attorney.

### **The Last Word**

I cannot speak for other home inspectors, but I have no problem with a former client calling me with a question. During your home buying process, use your inspector as an important resource, for he can help you understand your new home. There are great books available on do-it-yourself home repairs, which are always great resources, and now with the internet, we have even more information readily available for us. I have always used the library for information as well.

I wish you success with your new home!

*Frank Schulte-Ladbeck*

Professional Real Estate Inspector

TREC # 9073

Phone: (713) 781-6090

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### **Useful Information**

*There is more information on this topic found on the Links page.*

#### Lenders and Insurance

Insurance price estimates provided by the state of Texas (estimates not actual cost)  
[www.tdi.state.tx.us](http://www.tdi.state.tx.us)

Affordable lenders from the City of Houston's Homebuyer Assistance Program  
[www.houstonhousing.org](http://www.houstonhousing.org)

#### Services

Reporting water leaks, non-functioning street lights, road damage, etc. Call 311

City of Houston Water Department 713.371.1400 or e-mail  
[customer.service@cityofhouston.net](mailto:customer.service@cityofhouston.net)

Natural Gas from CenterPoint Energy 713.659.2111

Electricity providers in Houston City of Houston website to help you choose a service provider: [www.houstonconsumerchoice.com](http://www.houstonconsumerchoice.com)

Some telephone service providers:

AT&T (formerly SBC) 1.800.464.7928

Sprint 1.800.877.7746

MCI 1.800.950.5555

TimeWarner Cable (digital phone service, ask about 911 calls) 713.341.1000

#### Moving Services

If you are concerned about your mover, particularly for an interstate move, there is a website which offers information about the different companies:  
[protectyourmove.gov](http://protectyourmove.gov)

#### General Information

Gardening information for Houston (tips and hints) [www.growgreen.org](http://www.growgreen.org)

Restaurant Guide (find out about local eateries) [www.b4-u-eat.com](http://www.b4-u-eat.com)

Making your home energy efficient [www.energystar.gov](http://www.energystar.gov)

Local libraries provide access to the internet if you are unable to get on line otherwise.



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### **Contractors List**

This list is meant to assist you with finding someone with a job around your house. Things to remember: 1) a good practice is to have at least three quotes for a job, so you will have a feel for the price range; 2) the quotes should look professional, because a sloppy looking quote may indicate sloppy work; 3) understand what is being quoted, and what job will be performed. Tradesmen use the language they are comfortable with, so different firms could be including more items to the job than another firm, because they feel this should be part of the job, but they may not have explained this to you in a way that you may

understand; and 4) ask for and call references to get a feel for their job performance. This list is composed of associations for different types of repair business. Associations try to ensure a higher quality of job performance among their members, but it is hard to guarantee good work on each job, so check the firm out to see if they are right for you. Go to the websites for these associations to find a specialist in that area:

*Foundation Repair Association; Roofing Contractors Association of Texas; National Electric Contractors Association;*

*Air Conditioning Contractors of America;* a website *Contractors.com* which has customers rate the listed firms; Structural Engineers do have an association, but it does not list them by area, so the phone book is the best way to find one; plumbing, pest control, and landscaping is also through the phone book. Your friends and neighbors probably have suggestions as well.

### **Moving Checklist**

Things to keep in mind for your move: Many things are happening when you are buying your new home. Here is a list of some items you may need to consider:

1. Place your legal and financial documents (birth certificates, marriage license, social security cards, etc.) in a secure place. These are easy to loose in a move.
2. If moving out of town, you should obtain medical records from your doctor, optometrist, dentist, and veterinarian.
3. Back-up your computer files onto an external storage drive.
4. Save your moving receipts, because there may be a tax deduction in it for you.
5. Contact your service providers (such as gas, electric, water, cable, and phone service) at least two weeks before your move to inform them of your move. Either cancel your service or transfer it to the new address. A list of providers is on the Useful Information sheet.

*Check when contacted: ? Gas ? Electric ? Water ? Cable ? Phone service*

6. Updating your address for those who need to know. The Post Office has a form available in its lobby, which will help redirect your mail to the new house, but it

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is always best to inform your bank, credit card company, insurance providers, magazines and newspaper subscriptions, voter registration office, motor vehicle bureau (for your driver's license), and consultants (such as your accountant) directly. Also remember your employer, children's school, or any social organizations you belong to of your move.

Check when contacted: bank, credit card company, insurance providers,magazines newspaper voter registration office, motor vehicle bureau Lawyer Accountant Employer Children's School

7. Lastly, once settled in your new home, call me if you have any questions about your inspection report. I will be happy to come out and go over the house with you.