

# Real Estate

Your Home | Your Life



# The Most Common Mistakes

Love at first sight happens in real estate, too. Making an impulse decision in this situation, however, can lead to some very serious consequences.

You'll want to look beyond that colonial style or beach bungalow exterior before signing on for a mortgage. One wrong decision could take decades to undo. Here's how to avoid home-buying pitfalls:

## GETTING THERE

The most attractive deals are often located far from the city center, where buyers can get more square footage for their investment. But don't let the appeal of larger living areas and additional land distract you from the challenges associated with suburban or urban life. The lengthy commute means you'll be spending more time and money on increased fuel expenses or public transportation costs whether you are trying to access work, leisure or shopping options. Map out your routes or review train and bus schedules. Study changing local traffic patterns. If you found this great suburban deal, there are likely many others who will too.

## LOOK AROUND

Make sure your potential purchase isn't mispriced



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because it's situated near significantly larger properties. The home might be overpriced if it is the most attractive offering in an otherwise average neighborhood. You might risk missing out on potential equity gains from renovations or expansions if your home starts out as the smallest in the area. Housing availability could be

influenced by out-migration to more desirable locations. Even routine expenses such as dining, entertainment and shopping can be higher in affluent areas. Keep all these factors in mind before making a purchase.

## SIGNING ON

Talk to your lender about

specific mortgage types that have been designed to cater to different buying scenarios. For instance, adjustable-rate mortgages are perfect for buyers who anticipate moving soon. They might be suitable for those considering a starter home or anyone who's signed up for a short-term employment contract. Just be mindful

that these loans are influenced by market conditions, so you might have fluctuating payments as interest rates change. For those planning to stay in one place, fixed-rate mortgages provide stability over time. You can maintain a consistent payment level while creating memories for a lifetime.



# Want to Become a Landlord?

It's easy to see why investors buy properties with an eye toward becoming a landlord.

Ideally, setting a higher rent amount than your mortgage payment would help quickly build wealth. Nevertheless, there are many ways for this simple transaction to go very wrong. Here's an in-depth look:

## CONSIDER THE ROLE

Start by carefully evaluating whether you want to take on the responsibilities of being a landlord. It's not all cashing rent checks. You'll start by selecting the appropriate property, of course, and then finding suitable tenants and managing maintenance tasks. While hiring a property manager can alleviate some burdens, it also reduces overall profits. Many property owners opt to handle repairs themselves to minimize expenses and retain a larger share of their rental earnings. But that adds another layer of responsibility.

## DEBT MANAGEMENT

As you consider this purchase, be cautious about incurring too much debt. Mortgages for investment properties often come with stricter criteria. Your debt-to-income ratio must be lower than what is typically acceptable for a primary residence. It's wise to maintain a



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substantial cash reserve in the event there are unexpected expenses.

## DOWN PAYMENT

To qualify for an investment property, most financial institutions typically require a minimum down payment of 20 percent. Mortgage insurance is not typically available for rental properties. A higher

credit score may be necessary, and lenders may scrutinize your employment history and income more closely. They may even require you to have prior landlord experience.

## INSURANCE POLICY

Insurance safeguards your new investment property — and your own personal financial security. Policies

should cover property damage and loss of rental income, but also have liability protection in the event that a tenant or visitor is injured. Be aware that standard homeowners' insurance may not cover losses that occur while the property is being rented out.

## FIXER UPPERS?

While exploring low-cost

homes for your investment, be wary of fixer-uppers. They can quickly deplete your rainy-day fund. Instead, seek out properties priced below market value that require only minor repairs. Focus on homes in emerging neighborhoods. Maintain realistic expectations and understand going in that there might not be immediate financial returns.

# Inside Real Estate Jargon

Real estate investments tend to have their own unique terminology.

If you're new at this, the jargon can be downright confusing. Familiarize yourself with the most commonly used terms with this brief glossary before completing your first transaction:

**Approved for short sale:** This indicates that a homeowner's lender has accepted a lower listing price for a property, making it available for resale.

**Back-end ratio:** This is one of the two debt-to-income ratios that lenders evaluate to assess a borrower's qualification for a mortgage. It measures the borrower's total monthly debt obligations against their gross income.

**Buyer's market:** Condition when the supply of homes for sale exceeds the number of buyers, leading to longer market times and declining prices.

**Cash-value policy:** This type of homeowners insurance covers the replacement cost of a home, accounting for depreciation, in the event of damage.

**Comparative market analysis:** Estimates a property's value by examining recently sold homes in the same area with similar characteristics, including condition, features, size and age.

**Comps:** Refers to comparable home sales in a specific area over the last six months,



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which real estate agents use to assess property value.

**Conventional loan:** A type of mortgage that is not backed by a government entity, such as the FHA or VA.

**Debt-to-income ratio:** The proportion of a homebuyer's monthly expenses relative to their gross income.

**Earnest money:** A deposit made by the buyer to

demonstrate their commitment to purchasing the property.

**Foreclosure:** When a bank reclaims a property after the owner defaults on mortgage payments.

**Listing price:** The amount a seller offers their home for sale.

**Loan estimate:** A multi-page document provided to a

prospective buyer after their loan application, detailing terms, monthly payments and closing costs.

**Loan-to-value ratio:** Balancing the loan amount with the home's purchase price.

**Multiple listing service:** A platform where real estate agents list properties available for sale.

**Origination fee:** Charge a

lender or broker makes for processing and completing a home loan application.

**Piggyback loan:** A financing strategy that combines multiple loans to bypass private mortgage insurance.

**Seller's market:** Condition when demand from buyers exceeds the available homes for sale, often leading to competitive bidding.



# Understanding HOAs

The goal of a homeowners association is to safeguard the interests of residents.

Dues collected provide essential maintenance, protect members of the association from potential liabilities through shared insurance coverage, and offer and maintain special amenities that increase the property value.

They may set certain rules meant to maintain a cohesive aesthetic within the neighborhood, while serving as a mediator in disputes among homeowners. That's why it's important to carefully examine HOA fees, amenities and regulations before buying a property.

## WHAT ARE THE COSTS?

Joining a homeowners association means agreeing to specific terms, rules and conditions, as well as paying an additional monthly fee. The fees can vary significantly based on several factors. The presence and maintenance of amenities can heavily influence costs. While a tennis or pickleball court may require minimal upkeep, a swimming pool demands considerable resources so expenses go up. The size of the community also affects the dues, as costs are typically lower per household when spread across a larger number of residents.



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## WHO DECIDES?

When considering a purchase, direct inquiries to the members of the association's board of directors. In some neighborhoods, particularly newly constructed ones, external management companies may manage these boards. But members of the board are typically volunteer residents who are invested in the community. Their responsibilities may include allocating

collected dues toward services outlined in the HOA charter and adjusting fees in response to cost-of-living changes or unexpected expenses. Inquire about any one-time or non-annual fees — known as “special assessments” — that may have been imposed prior to your purchase.

They might reveal issues with management of the board or maintenance problems.

## REVIEWING RESTRICTIONS

HOA regulations will specify what is permissible and what is not within your potential neighborhood. Unfortunately, these rules may sometimes prevent certain purchases. Some HOAs impose restrictions on pet ownership, while others may have age-related residency requirements. As a prospective buyer, you will be subject to these regulations,

so make sure they align with your lifestyle. Gated communities offer an additional level of security, but they may also impose limitations on visitors and access. Those interested in home improvements should note that many HOAs have specific guidelines regarding the style and extent of remodeling projects. Some require only certain colors while others prohibit modifications altogether.



# How to Stage Your Property

How successful you are at selling your home could be influenced by personal decor choices.

You don't want to miss out because your personal style doesn't click. That's where staging can save the day. Here's how to "de-personalize" your property so that anyone can picture themselves as the next owner.

## EXTERIOR

First impressions are crucial so be sure the exterior of your home is inviting and tidy. Begin by power washing the siding, roof, gutters and fascia boards. Apply a fresh, neutral coat of paint to your shutters and front door that works in conjunction with the overall color scheme. Update any faded doormats, house numbers and malfunctioning lighting fixtures. Clean up the mailbox and tidy the flowerbeds.

## INTERIOR

Begin by decluttering your space. You want potential buyers to envision a new life in your home, and that can be difficult if they're surrounded by personal items and photographs. So focus next on depersonalizing everything. Remove family pictures, collectibles and children's drawings, substituting them with neutral artwork that encourages buyers to imagine what they'd do in this space.



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## KITCHEN

In the kitchen, store away small appliances that are rarely used and pack up your fine china. Clear out the pantry and remove any items from your countertops to highlight the available space. Clean the cabinets and appliances thoroughly, and consider repainting the cabinets in a timeless white for a

fresh look. Update any outdated hardware and replace faucets that are no longer in good condition.

## CLOSETS

Clear out the contents of closets and cabinets, then organize what remains in coordinated baskets and bins. Incorporate shoe racks and under-shelf baskets to

highlight the property's storage space, and put out some potpourri to make sure musty areas smell fresh and inviting.

## BATHROOMS

Bathrooms can be particularly challenging, but it's critically important that they're presented in the best possible light for prospective buyers. Clean thoroughly, then

clean again, and continue until it sparkles. Address hard water stains, dispose of outdated cosmetics and products and eliminate mold. Invest in new shower curtains, bathmats and rugs, while making sure the grout is spotless. Re-caulk the bathtub or shower, as needed, and place fragrant soaps and plush, bright white towels for a light finishing touch.

# Repairing Your Credit

Some new homeowners might not know, but your credit score significantly influences the total cost of a home throughout the duration of your mortgage.

A higher score typically results in lower interest rates, allowing you to keep more money in savings. If you're preparing to purchase a property, one of the most important things you can do is improve your credit. If yours needs work, follow this guide before embarking on your new home search:

## CHECKING YOUR REPORT

Start by accessing your credit through one of the three primary reporting agencies: Equifax, TransUnion or Experian. Each provides one free report annually upon request and you can access them weekly at AnnualCreditReport.com. Signing up for a credit bureau's online services can give you access to alerts whenever there is a change in your credit and can often be done for free.

Some banks and credit card companies may grant more frequent access to your scores. Closely monitor your score, as these are the same bureaus lenders will consult



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before setting your rate. A better score can lead to more favorable loan options, including the possibility of a lower down payment.

## IMPROVING YOUR SCORE

If a credit score is hindering your ability to secure the best loan, there are steps you can take to improve it before purchasing a home. One effective strategy is to open a low-interest credit card account, which

you can then use for a few regular purchases. Just make sure you pay the credit card in full and on time each month, as this will help drive up your credit score. Carrying a balance or, even worse, missing a payment can adversely affect your credit numbers. By maintaining disciplined spending and making regular payments, you can directly improve your mortgage options. If needed, contact

your credit card issuer to make sure they're reporting your activity to the three major credit bureaus.

## PRE-QUALIFICATION

If you're concerned about managing your finances, consider pre-qualifying for a loan. This will provide you with clarity on which homes fit within your budget, while preventing any delay in the home-buying process — or the

accumulation of excessive debt. The pre-qualification document from your loan officer specifies your loan limit. It provides a level of confidence in your purchasing decisions by sharing insight into your payment structure and interest rates. Having a pre-qualification letter can strengthen your negotiating position with sellers, as it demonstrates your readiness to buy.



# Why Inspections Matter

You have finally found your dream home. Now it's time to make sure this property doesn't turn into a nightmare by hiring a professional to conduct a detailed inspection.

After putting the home under a microscope during a comprehensive pre-purchase inspection, you'll be assured that there are no hidden problems.

## WHAT THEY DO

A licensed home inspector will thoroughly evaluate the property without any of the biases that might cloud a buyer or seller's judgment. Their focus is on maintenance issues, wear and tear, unethical contractor practices or other problems that could have substantial financial repercussions for a new homeowner. They'll check systems throughout the home while looking for any violations of local building codes.

Along the way, inspectors sometimes uncover significant issues. In the worst-case scenarios, these concerns end up deterring potential buyers. But more often, home inspection reports simply lead to negotiations with homeowners for repairs and the sale eventually goes through as planned.



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## WHAT TO ASK

Start by confirming that your prospective home inspector has the necessary certifications and licenses. While some states may not mandate this, having these credentials serves as a crucial protection for you since you know they've received key professional training. Ask whether they are bonded and

insured. This will safeguard both parties in the event of an oversight during the inspection.

Ask how long the inspection will take. If the response is under two hours, this indicates that they don't plan to do a thorough assessment. Lastly, make sure they will provide a complete report, including photographs, following the

inspection. You'll need this documentation to address any pre-sale issues with the homeowners.

## INSIDE THE REPORT

To avoid potential issues, verify the inspector's references. If you are relocating to a new area and need assistance in selecting a reliable inspector, your real estate

agent can be a valuable resource. Pay close attention to any notes from your inspector, particularly regarding electrical or plumbing systems since repairs in these areas can be quite costly. With new construction, non-compliance with local building codes should serve as a warning sign for prospective buyers of sub-standard work elsewhere.