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## What do I Need to Know about Real Estate and Finance, That I Don't Know Now?

### 24 questions You should ask before buying a home

#### **Question:** What Kind of Questions Should I Ask Before Buying a Home?

A reader asks: *"We're new to the homebuying process and have been going to open houses. When the agents ask us if we have questions, we know we're supposed to ask something, but what? What kind of questions should we ask before buying a home? What do we need to know about a house?"*

**Answer:** Most first-time home buyers jump into buying their first home because they've fallen heads over heels in love with the house, so you are wise to think about asking questions before signing on the dotted line. Here are 5 main issues that home buyers should address upfront:

- Lender Credit Pre-Approval
- Offering price
- Condition of home
- Location of home
- Total Investment and Budget

With the advent of Zillow.com and other online information centers, some of the data you would like to know can be found on the web, but much of that information is incorrect. For example, Zillow can't accurately compute value on homes in neighborhoods where the size and configuration is nonconforming. But it can give you a general idea of value.

This is how a Great Realtor distinguishes themselves from just the average real estate agents. They will help you organize the steps of the buying process to minimize frustrations and make the buying process a great experience. Let's start with the questions and things you should know about.



## **Prepare for buying a home**

Before you make an offer on a house, it pays to ask a handful of questions. While the answers might scare you off or make you rethink your bid, they could make you feel more confident that you're making the right move on the right house.

As you prepare for buying a home, here are seven questions to ask *before* you make the offer.

### **How long do I plan to live here?**

In the past, three to five years in a home was an acceptable time to stay put before selling. "Now, that time frame has lengthened, so you really do need to put more consideration into how long you'll be living in one place," says Walter Molony, spokesman for the National Association of Realtors. Also consider the "kiddie factor" -- whether you plan to have children or add more to your family while living in a house. "You may need a larger home or find a community with better amenities for children, and that will increase the likelihood of you moving," Molony says.

### **What market indicators should I look at?**

Forget about the state of the U.S. housing market. Instead, remember the phrase "all real estate is local," and find out all you can about the neighborhoods you're considering. One might be a buyer's market with a bunch of priced-to-sell properties, another might be more competitive because it's in a better school district. Eric Tyson, co-author of "Home Buying for Dummies," recommends talking to a real estate agent and getting facts and figures such as:

- The inventory of homes.
- Whether properties have gone up or down in value, and at what pace.
- The number of days homes are on the market before sale.
- How much homes are selling for compared to the listing price.

Tyson recommends comparing the costs of buying or renting in a neighborhood. "Look at the monthly mortgage, figuring in the tax benefits, for one home and compare it to the monthly rent for a similar home in the area," Tyson says. "If the rental is a better deal, that saves you from buying an overpriced home that's harder to unload later."

### **How financially stable am I?**

Look at your job: Will you still be there in five years? Do you work in an industry with a rosy, or rocky, future? And does climbing up the career ladder mean you might have to move elsewhere to get ahead? "The better your job stability, the more confident you can feel about staying in one place for five years or more," Tyson says.

Take a look at your current debts and income, not your future salary, to determine whether you can afford to buy. "Buyers need to stay well within their means," Molony says. "If you can't afford a mortgage, or you must rely on an adjustable-rate mortgage, or you are not comfortable with the worst-case scenario of not being able to sell when you need to, then it's not yet time to buy."

### **How much house should I buy? How much can I afford?**

The answer to this has a lot to do with your income and the amount of your debt load. As a rough rule of thumb, most home buyers purchase houses that cost between 1 1/2 and 2 1/2 times their annual income. For example, a home buyer earning \$40,000 per year would buy houses costing between \$60,000 and \$100,000. There is, however, a degree of variation due to the individual market prices of the area in which you are interested. In some areas, there may not be houses available within that range, so you may need to spend a bit more. In general, however, your monthly mortgage payment cannot exceed approximately 28%-29% of your gross monthly income. Your total debt payments (car payments, credit card payments, etc. plus the monthly mortgage amount) cannot exceed approximately 36%-40% of your gross monthly income. These ratios will depend on the type of mortgage for which you are applying. For more information on mortgages and to begin the application process, see the section devoted to **finding a mortgage**.

## **What do I need to know about my Credit and my Loan Approval prospects?**

The very first step in your home buying process is working with your Realtor to get a Credit pre-Approval. This will give you the freedom of choice in the market place and allow you to negotiate on any home offered for sale. You must realize that some sellers will only accept offers from bonified buyers with a credit approval. This only helps you in the buying process, as you must know if you face any credit challenges and need time to resolve those issues before you actually initiate a new home search.

Depending upon the amount of down payment and specific loan type you wish to qualify for, most lenders will require a minimum 620 middle credit score. Some even require a 640 minimum credit score for any buyer on the sales contract. This is something that the lender can help you with and help you boost scores, sometimes with minimal effort. It is important to know that there is nothing to prevent you achieving your homeownership goal. Even a low score can be raised to meet the minimum requirements. It just may be a matter of time and budget.

See more below in the “Question on Lending”

## **Property Questions**

### **What is the long-term future of the area?**

In real estate, one routinely hears it's all about location, location, location. Homes in desirable areas are worth more than similar homes in locations not so desirable.

- What types of other properties are located nearby? One home I was showing, had a cement wall over the fence. Behind it was a towing company and plumbing company. Apartment buildings, commercial and industrial lower the value of residential around them.
- What are the neighborhood demographics? Some title companies can supply this information, but your best bet is to talk to the neighbors, followed by asking the agent about the area and doing research at the library.

- Where are the schools? Schools are a huge concern to parents with small children. In some states, even if you buy a home within the boundaries of certain school districts, there is no guarantee your children will get in to that school.
- Are there nuisance factors? Traffic from nearby restaurants or stores may be an irritant. With freeways in the distance, you might not hear the noise during the day, but as night falls, the clatter and constant hum may get louder. Even barking dogs can drive a person nuts.

Besides looking at historic home price appreciation in an area (Molony says the average in a normal market is 1 or 2 percentage points above the rate of inflation), look at its long-term prospects. "Are you buying in an area where there's lots of land available, and they're just beginning to develop it?" Tyson asks. "If so, that could keep the lid on potential price appreciation."

On the other hand, Molony says, you do want to live in an area that has growth prospects -- in more ways than one. "If a particular area's growth hinges heavily on one industry, its fortunes will also rise and fall alongside that industry's." Detroit, and the city's plan to raze abandoned buildings, is a prime example. But if you live in a region that has more than one type of industry keeping it afloat, your home's appreciation is more likely to stay on a steady course. This why Bergen county has been so popular and the prices so stable.

## Questions to Ask About Offering Price

Home buyers often compare prices of similar homes in the neighborhood before choosing a price, but the asking price may have very little to do with the actual value of the home or the price a buyer should offer.

- How much did the seller pay? While the seller's profit has nothing to do with the price of tea in China, it does help to know if values have gone up or down since the seller bought the home. If it's a foreclosure flipper, you might not be able to secure financing for 90 days.
- How much does the seller owe? If the seller owes more than the asking price, then you are looking at buying a short sale or the seller will need to bring cash to closing.
- How much have similar homes sold for in the neighborhood? This is your best indicator of value because your bank's appraiser will rely on those comparable sales to compute value.
- How many offers has the seller received? Some homes generate multiple offers. In that event, your offer will need to be very strong to survive the competition.
- How long has the home been on the market? You might be able to negotiate a discount on the price if the home has been on the market for 60 days or longer.

### What is this property worth in today's market?

**How much should I offer for a house?** There is no simple answer to that question, since each property stands on its own. A particular house may be overpriced (you should make an offer **BELOW** the listing price), "on-the-money" (you should make an offer at or just below the listing price) or underpriced (you should grab it before someone else does!)

For ethical reasons, agents can't tell you how much to offer, says C.D. "Chip" Boring, broker/owner of Re/Max Realty Plus in Sebring, Fla. Instead of asking directly how much the home is worth, you ask indirectly, by seeking information about comparable sales, or "comps."



An agent should arm you with plenty of comparables -- prices of similar, nearby homes that have been sold recently -- along with high and low ranges for a particular property, Boring says.

Your agent can tell you how long homes are staying on the market, and the percentage of the asking price sellers are getting, says Dick Gaylord, past president of the National Association of Realtors and broker with Re/Max Real Estate Specialists in Long Beach, Calif. This information tells you how hot the market is where you are looking, he says.

Also ask how long the property has been on the market. If it's been languishing for months with nary an offer, it could be slow market or it could be overpriced, says Robert Irwin, author of "Tips and Traps When Negotiating Real Estate."

## Are any foreclosures for sale in the area?



It's the question sellers (and their agents) hate: Are foreclosed homes for sale nearby? Foreclosures usually cost less, and that has to figure into your buying decision.

"It always makes sense to ask if there are other houses for sale in the neighborhood," says William Poorvu, professor emeritus of entrepreneurship at Harvard Business School and co-author of "The Real Estate Game." "In today's world, you should also ask if any of these sales are as a result of foreclosures."

With foreclosures in the neighborhood, "you can assume there will be a lot of price competition, and you may offer less money," Poorvu says.

The seller did pass along all the documentation on the home's hardwood floors. So when the new owners wanted to install that same hardwood in the hallway and office, they had the information they needed to get an exact match.

## How flexible is the seller on the asking price?

If you insult the seller with a lowball offer, you could lose your shot at the house. To avoid offending the homeowner, ask the seller's agent how firm the seller is on price, Irwin says. You can have this



conversation directly with the seller's agent or have your agent ask the question.

Keeping it in terms of "how flexible are they on the price?" instead of "how much less will they take?" allows you to feel out the situation without offending the seller, Irwin says.

Not every seller will be willing to bargain, so if your strategy is to make lowball offers, plan to make "offers on several properties before you connect with a seller who will deal," Irwin says.

A question that often goes hand-in-hand: Is the seller willing to help with the closing costs?

On foreclosed homes, a seller's contribution to closing costs "certainly is common with Fannie Mae and Freddie Mac because they want to sell their properties," Gaylord says. "And sellers who have equity in their property and want to help are helping."

## What's Issues Do I Need to Know About this house?

### Ask Questions About the Condition of the Home Before Buying

If you know in advance that the home has structural issues or deferred maintenance, you might want to take those problems into consideration before choosing an offering price.

- How old is the roof? Newer roofs have a life expectancy of anywhere from 15 to 50 years or more, depending on its materials.
- What is the type of foundation? Raised foundations allow access under the home to reach plumbing and electrical, as do homes with basements. Slab foundations are more common in newer construction.
- Does the home have insulation in the walls and attic? In colder climates, insulation is more important, and each locale sets standards for the R factor.
- Have any appliances or systems been replaced and, if so, when? It's a plus factor if older plumbing and electrical have been updated. Moreover, some older appliances can't be repaired because parts are no longer available.

"One of the things that's happening now is every house is in 'perfect condition,'" Irwin says. "The sellers really want to sell their property, so they may have fixed or cosmetically covered up a problem. And they may be failing to disclose any real problems." A local professional Realtor is key to finding the issues.

But, don't hesitate to take the direct approach: Ask: "Is there any problems with this house?"

Irwin recommends reminding sellers that with inspections and disclosures, chances are you'll find any problems. "So if the sellers just get it out in the open, they'll avoid wasting your time and theirs," he says.



Some sellers' agents recommend a home inspection before putting the home on the market, Boring says. If one has been done, ask to read it.

Some states mandate disclosure forms in which sellers have to reveal any issues or problems with the house, says James Foltz, who recently bought a home.

In his case, the disclosure not only provided information, but it also started a dialogue with the seller. Foltz learned that there had been a problem and that it had been fixed. In the end, Foltz says, "It wasn't that big a deal."

## Do you have the paperwork for the mechanical systems?

Foltz says he should have asked more persistently for receipts and documentation about his new home's appliances and mechanical systems. "But it's something you don't have that much control over," he says.

The seller replaced the air conditioner shortly before putting the home on the market, but didn't save the paperwork. Without documentation, the new buyers didn't have a lot of options when the unit malfunctioned.

Foltz says he didn't know who sold the air conditioner or if it was under warranty. "So we paid out of pocket."

The seller did pass along all the documentation on the home's hardwood floors. So when the new owners wanted to install that same hardwood in the hallway and office, they had the information they needed to get an exact match.

## Always an important issue, is water.

**Are there any drainage issues on the homesite? Is this home in a flood plain? What is the status of the roof and gutters. If there is a basement, are there any water issues that the owner has had over the years?**



Living in a flood plain can require flood insurance, which can affect the cost of living in the house. Be sure to ask if the home is in a flood plain.

The Federal Emergency Management Agency, or FEMA, posts free online maps that show if your home-to-be is in a flood plain. It doesn't hurt to double-check with the county, and talk with your property agent, too.

If you discover that the home you want is in a flood plain, you need to know what type of flood plain (some ratings indicate

higher risks than others), and how much flood insurance will cost. (One way to find out: Ask to see the seller's flood insurance bills.)

Once you have some information, you can weigh your options. Can you afford any additional costs that might be associated with this type of flood plain? And are you still comfortable with the property?

### **Should I spend the money to have a home inspection?**

Absolutely. The \$200 to \$500 that a professional home inspection costs could be the best money you ever spend on your house. Not only does the home inspection seek out any defects (and gives you some peace of mind), the home inspector will often give you tips on maintaining and repairing your house. See the section on **Home Inspections** for tips on what to look for and how to choose a home inspector.

**What is an appraisal? Will I need one?** An appraisal is an opinion of value of the home you want to purchase. Virtually every lender will require some sort of appraisal before the loan is approved. See more information in the article dealing with **appraisals**.

**What do I need to know about the seller's motivations.** Is the home in any foreclosure action. If so, Will the lender allow a short sale? Why is the seller offering this home for sale.



In a short sale, the bank allows the property to be sold for less than the amount of the outstanding mortgage. If the seller's bank doesn't give its consent, the short sale can't happen.

But some sellers simply decide to list their properties as "short sales" before even talking with their lenders, Gaylord says. These sellers don't realize that their financial situations might not meet the lender's criteria for short sales. So even if the buyer and seller settle on a price, without the bank's permission there won't be a deal.

That's why, when a home is advertised as a short sale, the buyer should ask whether the lender has agreed to allow the home to be sold for less than the outstanding mortgage amount. "Find out if there has been communication with the lender," Gaylord says.

Do a little investigation, too, he urges. If the buyer has gotten permission for a short sale, what was the bank's reason for granting it? Does that reason sound plausible (divorce, job loss, transfer)? And are banks typically granting short sale requests in that situation?

## **Questions about Lending**

### **How do I know if I am getting a good deal on a mortgage?**

In a word: Compare. There is a good deal of variation in the mortgage market, not only from week to week, but from lender to lender. Many newspapers list current mortgage rates for your local area in their Real Estate sections, often on Saturday or Sunday. Check them. We have also made arrangements with where

you can submit a simple (and secure) application online. For more information, spend some time and visit

## **What First Time Buyer Programs are available?**

There are literally hundreds of different programs available, depending on your location (city, state, or province) and the mortgage source that you use. The requirements and benefits vary greatly from program to program. Consult your Agent or your local housing authority for more information.

## **How much will my closing costs be?**

The amount of closing costs will depend on what items are customary for buyers and sellers to pay for in your area. Traditions vary greatly from one area of the country to another. In some areas, for example, the buyer pays for title insurance. In other areas, it is the responsibility of the seller. In still other areas, the cost is split between buyer and seller. Your Realtor can give you specific information on the items that are customarily paid for by buyers in your area. In addition, the amount of closing costs will depend on the amount of points you will be paying with your mortgage loan, since these are generally paid for up-front. (A point is 1% of your mortgage loan amount).

## **What is my total cash investment to move in?**

An obvious important consideration in the home buying process is “How much money do I have?” and “How much money will I need to complete this transaction?” The answer is simple to obtain. Once you make your preliminary loan application you will meet the person who can put it all in black and white on paper. You should receive a GFE (Good Faith Estimate) after you make the application which will give you all the information. But, while you are with your loan officer simply have him/her give you the cash requirements for a range of prices that your loan officer know you will qualify for.

Your Realtor will help you with this also, but the definitive numbers will come from you Loan Officer.

You should know that there are loans depending upon your income and credit qualifications, with zero down payment, low 3.5% down payments and 5% down payments for qualified properties. In order to achieve the lowest payment on your home purchase then you should put more than a 20% down payment against the contract sales price and eliminate any mortgage insurance premium or private mortgage insurance.

**I hope this article gives you answers and makes it easier to arrive at your home buying decision.**

**If you have more questions, Please call me Stephanie Knight 201-774-3216**

