

THINGS TO CONSIDER IF YOU ARE
BUYING A HOME



SUMMER 2012
EDITION



TABLE OF CONTENTS

- 1** | **3 QUESTIONS YOU MUST ANSWER WHEN BUYING A HOME**
- 3** | **REASONS PEOPLE BUY A HOME**
- 4** | **6 DON'TS AFTER YOU APPLY FOR A MORTGAGE**
- 6** | **ARE YOU A BUYER LOOKING TO PURCHASE A SHORT SALE?**
- 8** | **EXPERTS SAY HOUSING PRICES ARE ABOUT TO TURN**
- 9** | **WHICH IS BETTER: A RENTAL OR YOUR OWN HOME?**
- 10** | **THE REAL VALUE OF HOMEOWNERSHIP... IT'S NOT MONETARY**



3 QUESTIONS YOU MUST ANSWER WHEN BUYING A HOME

If you are thinking about purchasing a home right now, you are surely getting a lot of advice. And some of that advice is probably negative. Why buy now with prices still falling? Don't you realize real estate is no longer a good investment? Don't you know that people who bought six years ago lost their shirt? We understand the concern your friends and family have. However, let's look at whether or not now is actually the perfect time to buy a home.

There are **three questions** you should ask before purchasing in today's market:

1. What are the experts recommending?

In the first half of 2012, many experts have said that buying now makes sense. This list includes: John Talbott, Christopher Thornberg and Warren Buffett.

2. When will I begin to see appreciation if I buy now?

This is a great question. Macro Markets, LLC is a company that studies housing prices. They started their **Home Price Expectation Survey** in 2010. They ask 100+ housing industry experts to project housing prices through 2016. The most current survey shows that the experts are predicting prices to remain relatively flat in 2012. The experts then project prices to rise reaching a cumulative appreciation of over **10%** by 2016.

Purchasing a home today makes great sense from a financial standpoint. Think of the old axiom: you want to buy low and sell high. This decision should not only be a financial one however.

That leads us to our third and final question:

3. Why am I buying a home in the first place?

This truly is the most important question to answer. Forget the finances for a minute. Why did you even begin to consider purchasing a home? For most, the reason has nothing to do with finances. The **Fannie Mae National Housing Survey** shows that the four major reasons people buy a home have nothing to do with money:

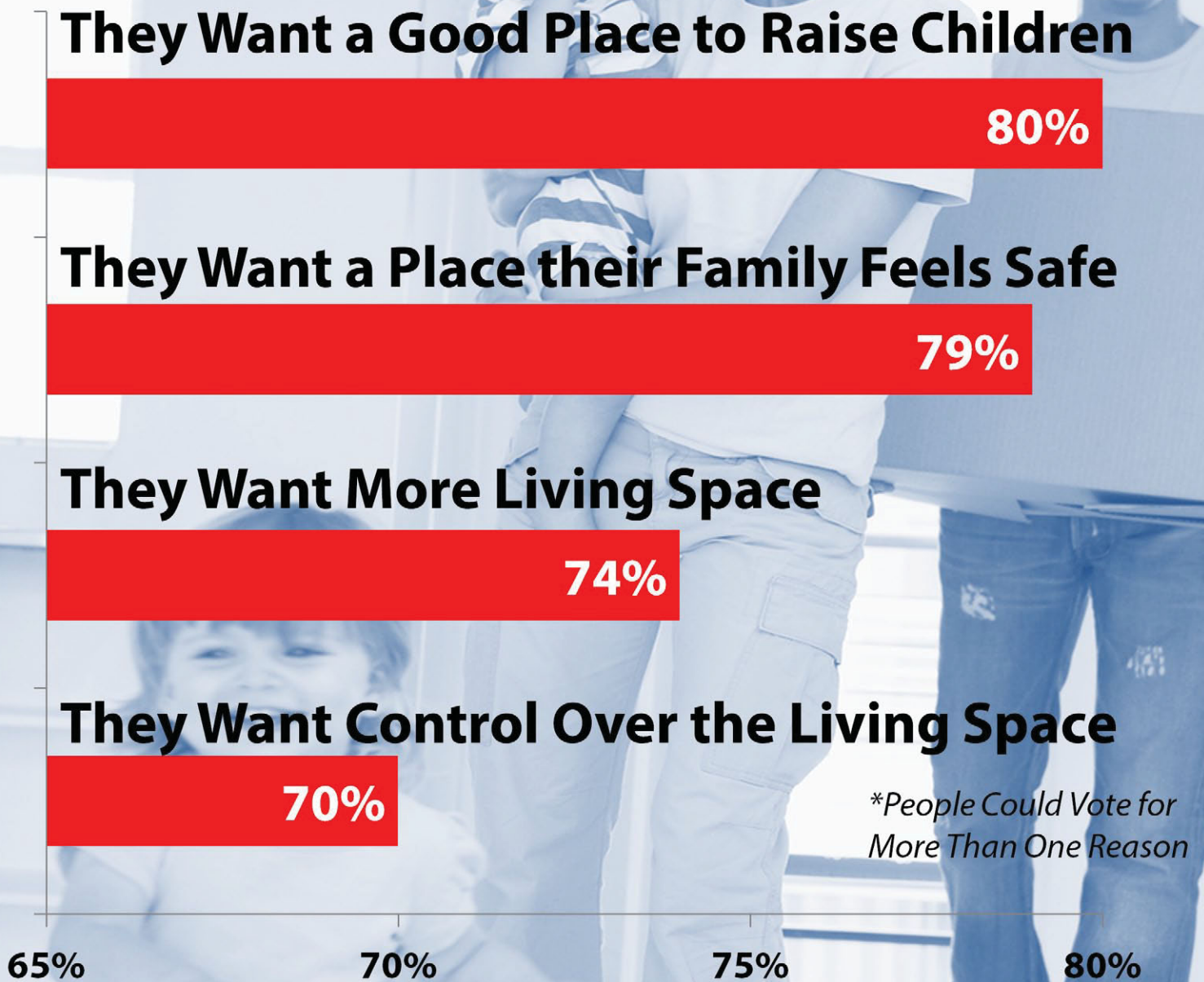
- A good place to raise children and for them to get a good education
- A place where you and your family feel safe
- More space for you and your family
- Control of the space

What non-financial benefits will you and your family derive from owning a home? The answer to that question should be the reason you decide to purchase or not.

Don't allow money to get in the way of you making the right decision for you and your family. In the long run, the finances will work in your favor anyway.



Reasons People Buy a HOME



Fannie Mae National Housing Survey

6 DON'TS AFTER YOU APPLY FOR A MORTGAGE

We've all heard the adage: "*common sense is NOT common practice*". This is especially the case during the emotional time that surrounds buying a home, when people tend to do some non-commonsensual things. Here are a few that over the years have delayed (and even killed) deals:

1. Don't deposit cash into your bank accounts.

Lenders need to source your money and cash is not really traceable. Small, explainable deposits are fine, but getting \$10,000 from your parents as a gift in cash is not. Discuss the proper way to track your assets with your loan officer.

2. Don't make any large purchases like a new car or a lot of new furniture.

New debt comes with it, including new monthly obligations. New obligations create new qualifications. People with new debt have higher ratios...higher ratios make for riskier loans...and sometimes qualified borrowers are no longer qualifying.



3. Don't co-sign other loans for anyone.

When you co-sign, you are obligated. With that obligation comes higher ratios, as well. Even if you swear you won't be making the payments, the lender will be counting the payment against you.

4. Don't change bank accounts.

Remember, lenders need to source and track assets. That task is significantly easier when there is a consistency of accounts. Frankly, before you even transfer money between accounts, talk to your loan officer.

5. Don't apply for new credit.

It doesn't matter whether it's a new credit card or a new car, when you have your credit report run by organizations in multiple financial channels (mortgage, credit card, auto, etc.), your FICO score will be affected. Lower credit scores can determine your interest rate and maybe even your eligibility for approval.

6. Don't close any credit accounts.

Many clients have erroneously believed that having less available credit makes them less risky and more approvable. Wrong. A major component of your score is your length and depth credit history (as opposed to just your payment history) and your total usage of credit as a percentage of available credit. Closing accounts has a negative impact on both those determinants of your score.

The best advice is to fully disclose and discuss your plans with your loan officer before you do anything financial in nature. Any blip in income, assets, or credit should be reviewed and executed in a way to keep your application in the most positive light.





ARE YOU A BUYER LOOKING TO PURCHASE A SHORT SALE?

It seems that there is a significant amount of confusion when it comes to purchasing a short sale. There are many misconceptions when it comes to this type of transaction. Below is some information for potential buyers of short sales. If you are looking to purchase a short sale, understand that it is not the same as a normal sale and the approach is very different. There could be several parties involved and issues that are unknown to the buyer and buyer's agent that can affect the transaction. If you are looking to purchase a short sale, here is some helpful information.

On average, to get a short sale approval, it can take 60-90 days.

There could be mortgage insurance and an end investor on the loan as well as the servicer, which means it has to go through three different processes. Bank of America could be the servicer on the loan but they do not actually own the loan, so, the short sale has to pass their guidelines, then go to the mortgage insurer if there is one, then to the end investor like Fannie Mae and Freddie Mac. If you are a buyer and can't wait at least 60-90 days for an approval and then another 30 days to go to closing, then you need to look at other houses. The worst thing you can do is tie up a house that is in a short sale with no intention of being patient while waiting for a short sale approval. Approvals can come sooner than 60 days, but industry standard is at least 60 days to get an approval or denial.

There is a general assumption that you can purchase a short sale for 40-50% under its listed price. The bank performs a valuation of the property and will expect a slight discount, but will not accept a huge amount under the market value.

Hopefully, if the agent who is handling the sale is experienced, they will have already received an approved list price from the bank by the time you are interested in making an offer. The bank will usually be willing to negotiate on that price, but will not, in almost every case, take 40-50% off of that price. To that point, you may be able to get a reasonable deal on a short sale, though it will not be, in most cases, as much of a deal as you may be able to get on an REO (foreclosed property). Also to that point, most short sales will be in better condition than an REO. When you look at the potential repairs a comparable REO needs and the time and expense it can take to do those improvements vs. a short sale being sold at a slight market discount with improvements already made, the investment could even out. There are REO properties that can be picked up for a huge discount, but require massive repairs that a comparable short sale may not require.

Short sales are a very difficult process and it takes a qualified person to handle this type of transaction.

With this type of transaction it takes a very experienced agent on the listing side as well as the buying side. Make sure before you move forward on the transaction that the listing agent has ample experience dealing with these types of transactions, or you could be tied up in a contract for months that never goes to settlement. There are several different types of short sale processes and each bank's process is somewhat different; it takes a professional who has had experience with all of these different types of short sales to help facilitate a successful transaction.

In most short sale transactions the properties are sold "as-is" and no repairs will be made prior to purchasing.

Although there are some exceptions to this rule, speaking in general, short sales are sold "as-is" and no repairs will be made even if they are found during a home inspection. In most short sale transactions, the bank will require both the buyer and the seller to sign an addendum that states the property is being sold "As-is" and no repairs will be made.

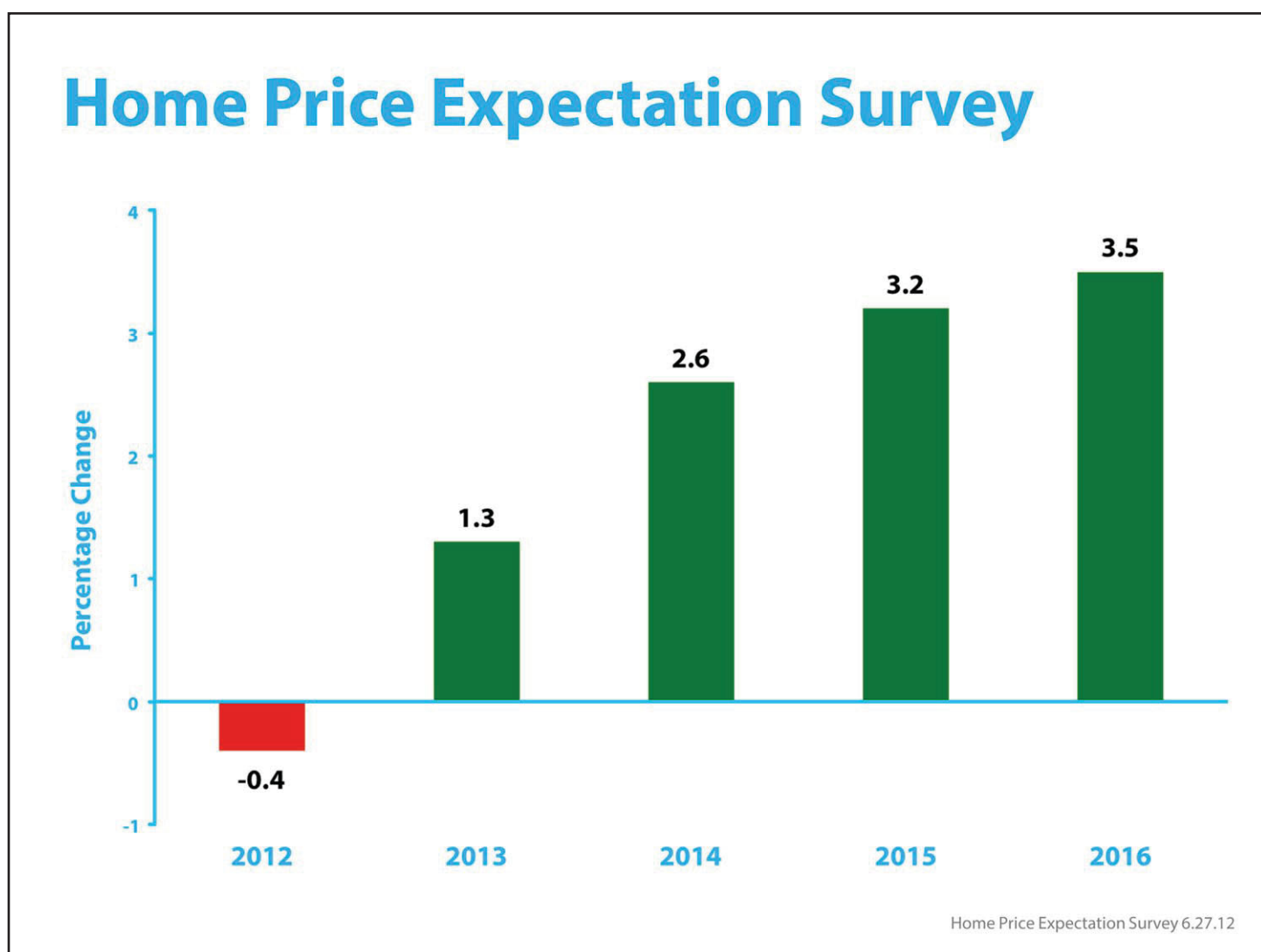
These are just a few short pointers for buyers who are looking to purchase a short sale as they are a reality in every market, and if you have the patience you may be able to get the home you are looking for at a discount!

EXPERTS SAY HOUSING PRICES ARE ABOUT TO TURN

Each quarter, Pulsenomics surveys a “distinguished panel of over 100 economists, investment strategists, and housing market analysts regarding their 5-year expectations for future home prices in the United States.”

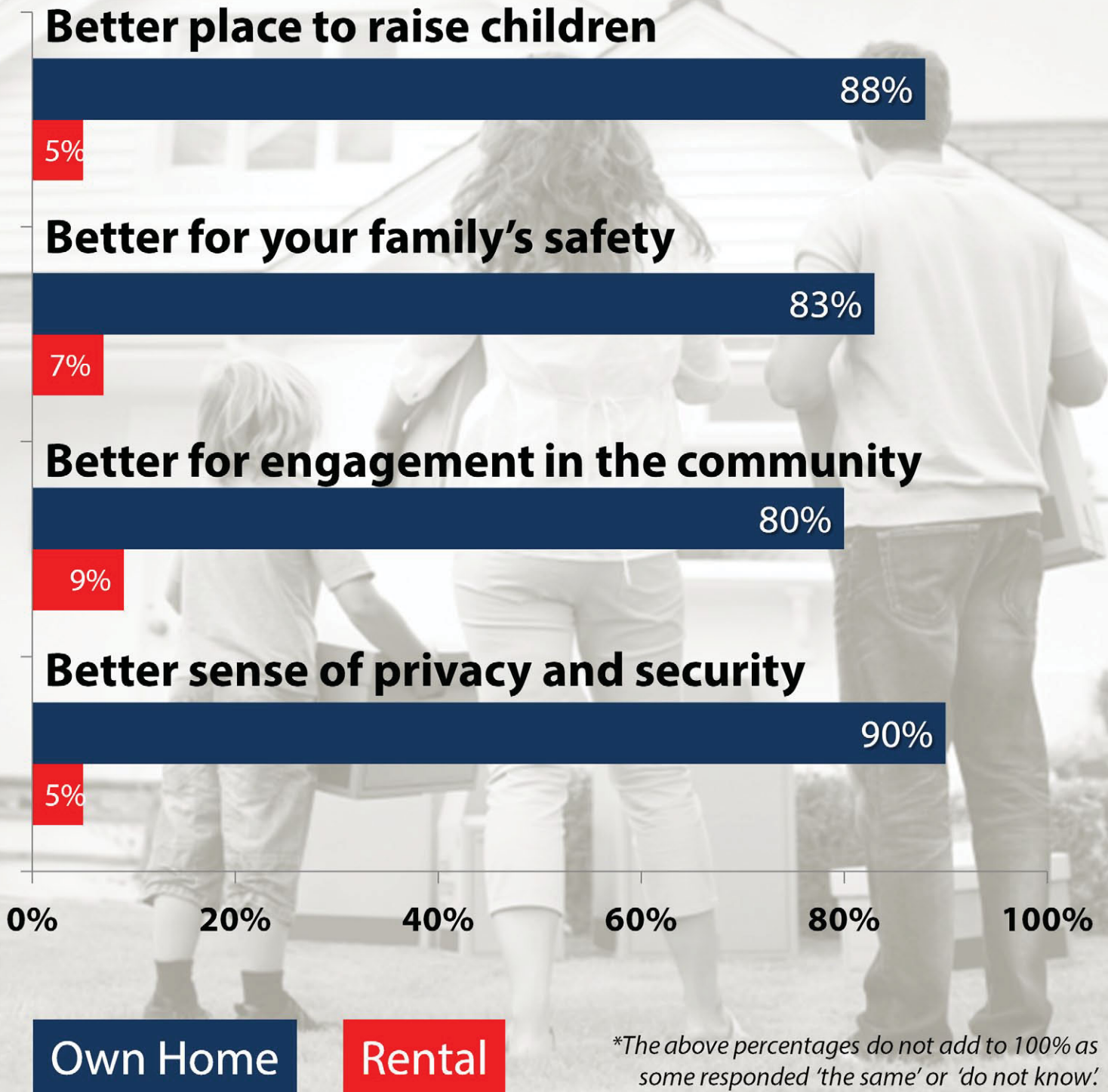
Here are the results of their latest survey:

Price appreciation/depreciation expected over the next five years:



The average pre-bubble (1987-1999) annual appreciation was 3.6%

Which is Better: A Rental or Your Own Home?





THE REAL VALUE OF HOMEOWNERSHIP... IT'S NOT MONETARY

This story is courtesy of Christopher Reale, Director of Short Sale Operations & Training at Lepizzera & Laprocina Title and Escrow (<http://www.leplap.com>)

There are numerous media sources reporting the advantages and disadvantages of homeownership. Every expert (from international money managers who have hundreds of billions of dollars of assets under management to local and national real estate experts) has chimed in on the subject. The bottom line is that the percentage of folks that own a home is going down.

This is largely because the amount of Echo-Boomers, adults from the ages of 18-34, are either still living at home or are renting. I write this out for the hopes that those individuals will enter the world of homeownership (I am confident that they will when the time is right), but to give readers a real life experience of the value of homeownership. And it is certainly not monetary.

I grew up in a middle-class family. Both of my parents worked and were lucky enough to have steady employment for most of their careers. My father worked within the same industry for almost 30 years and retired at the age of 62 with my mother doing so as well. They purchased a simple home back in 1972 for about \$35,000. At that time, their mortgage payment with taxes and insurance was about 40% of their take home pay. Needless to say, with all other household expenses, they were barely making ends meet. Their decision to buy a home was not made from the expectation of home appreciation and whether or not it was a good investment. No, they did not even remotely think of those points when closing on their home! Instead,

their goal was to raise a family in a home which they could call their own. It would be a permanent place that their child could call home...a home in which they could have family gatherings for holidays such as Christmas and Christmas Eve which were always hosted by my mother and father. A home that when my parents came home from a long day at work they could walk into and relax. For a moment, they could feel like a burden was lifted off their shoulders and all the day's work actually meant something. They were building a foundation of memories!

Childhood

I was born in 1974. I was lucky enough to have parents that had started to build the foundation that was the basis of memories that will last a lifetime. I can remember playing basketball and baseball in the driveway with my father and wrestling with my dogs on the front lawn. I remember waiting and looking out the window anxiously for all of my relatives to show up for the holidays. I remember the aroma of holiday cookies and pies permeating the house. I remember all of my cousins and neighborhood friends retreating to the basement playroom during holidays where we would spend hours talking and playing with toys. We were establishing memories and friendships that carry on to this day.

Second Home

During the Summer, my father's love for fishing and the ocean brought us to a campground on the shores of Cape Cod. My mother worked in the public school system which afforded her the summers off from work. From the time I was 7 years old, on the last day of the school year, we packed the car and headed off to the trailer for 3 months of beach going, fishing, and camping. My mother and I would stay down the Cape for the summer and my father would make the journey every weekend to join us. Again, I am blessed to have such great parents that allowed this to happen. In 1984, my parents, along with some campsite comrades, decided to purchase land and build a summer home for their respective families. The choice was a tough one. Both families knew it would be financially testing to complete such a task. However, in the long run, they felt it was the right decision. A permanent summer home where their families could congregate, host visitors, and relax from the week-long grind was worth the financial sacrifice. Again, this decision was not made in the hopes of financial gain; it was made for the good of their family.

I remember the construction of the home as if it were yesterday...from the pouring of the foundation, to the framing, to the day my father and I made our first overnight stay. We slept in cots in front of the fireplace that my father and his best friend built. The house was not finished but we were so anxious to stay in the house that we did so without plumbing or light fixtures. We had a blast! Those memories will last me a lifetime.

Fast Forward

Unfortunately, after a battle with cancer my father passed away on April 28, 2010 at the age of 69. A month earlier, my daughter, his first grandchild was born. Tragically, my daughter will never have the privilege to meet my father and my best friend. But while sitting on the Cape house deck in the very chair my father always relaxed in, watching my wife and mother play with her in a wading pool, I came to realize something. So many of us look at homeownership through “monetary glasses”. When one is buying a house as a primary or secondary residence and is hoping to stay a while, homeownership is not about the monetary/price appreciation aspect of purchasing the home. It is about building a foundation of memories for you and your loved ones. I count my blessings that my parents thought this way. It is because of their wise decisions, that the foundation they built will be enjoyed for generations to come.

