



The Home Buyer's Guide



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Dedication

It doesn't matter where your home is. No matter if it has granite countertops. It's not about the pool in back, or the 4th car garage. To me, home is where the people you love are.

For me, it's about my wife Julie, 5 kids, a way cool son in law, and an extremely cute grandbaby. To all of you – when you're in my home, then it's home.

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Foreword

Ask any realtor: home buyers can be a jittery lot. And who can blame us? This isn't a new bike we're buying, it's a house! Most of us are pretty good at making the little decisions, like what to buy at the store or what movie to go to. We have the \$25 decisions figured out. But what about the \$250,000 decisions?

Your home-to-be may be considerably more or less pricey than \$250,000, but one thing is certain: most of us don't make that kind of decision on a regular basis. It makes us nervous, even perhaps overwhelmed, and justifiably so. We're not just going to have to live with this decision; we'll have to live in it.

If all of this makes you feel nervous, that may prove either that you're sane, or it may indicate advanced intellect. In any case, you should take each step of this process with your eyes open, armed with the intelligence and tools you need to succeed.

And that's why you're reading this book.



Meet Your Realtor

It's a frightening concept: You're beginning a process that will result in a 30-year obligation. That could be the majority of your remaining time on earth. This is not something you want to make a mistake on.

At the same time, not owning a home can be one of the costliest mistakes a person can make. For many of us, the greatest part our net worth is created by home appreciation. My experience is that over time, there is no better investment than owning the right home.

Enter the realtor. Get the right one, and the going gets much easier. He or she can be the captain of your journey through unfamiliar territory. He or she can help you get the right loan, stay away from money traps, and captain your ship away from homes with legal issues. Your realtor can help you know when the seller is being unreasonable, or let you know when you might be getting ripped off. He can be your voice when the going gets tough.

As you move forward with your realtor, there are predictable stepping stones. As you move through them, you will know that he is taking care of you and filling his role.

The first steps with your agent should take may be an interview to gather your needs and wishes. She will schedule you for a meeting with the lender and begin the prequalification process. She will help you learn how much home you can qualify for. She will guide you through the agency contract, the home selection process, the real estate purchase contract (REPC), the inspection, title and mortgage issues, and finally, your home warranty selection. These are

the major “typical” steps, with a number of intermediate steps included along the way.

The Agency Contract

The agency contract is one of the first steps as you move forward. The agency contract is an agreement between you and the realtor – it provides protections and benefits for both of you.

Only an agency contract allows the realtor to negotiate for you or on your behalf in real estate negotiations. The contract defines a relationship between you and your realtor. It provides both sides with a clear definition of your relationship, and gives the realtor the freedom and motivation to get out and work her hardest for you.

Let’s look at the scenario from a realistic human perspective. Assume you are a businessman with a limited inventory of items to sell. You have a contract and relationship with one client, and another client “in the wings”, who may or may not do business with you. Who will you take care of best? My bet is that you’ll work hardest for the client with the established relationship. It’s human nature, and it’s logical. This is why you need an agency contract.

As you move forward toward home selection and the REPC, you will eventually sign an agency contract – if you buy a home, it will happen before you close. Consider doing the contract earlier rather than later - it may result in your realtor working harder for you, and giving you the first opportunity at the kind of deals that go very quickly.

Real Estate Buying Basics

Buying a home can be like buying tires. If you know what a P215/60R16 is, then you're in better shape than most. If not, you'll need a short primer on some of the terms in the business. In the real estate business, two of the most important terms are *short sale* and *foreclosure*.

The term "short sale" is a relatively new term – a consequence of the times – but a reality in the new real estate market. It's quite different than a foreclosure. To play the game successfully in this market, you must understand what these terms mean to you.

The Short Sale

The term "short sale" could be one of the most unfortunate names ever given to a process. There is absolutely nothing "short" or "quick" about a short sale. Terms like "agonizingly drawn out" or "excruciatingly extended" may be a better description.

Short sales were given their name because the amount of the sale is "short" of the total amount owed. For example, let's say Seller X owes \$100,000 on his home. Given market conditions, he can only sell his home for \$90,000. This means that the equity is "short" \$10,000 – and someone has to come up with it for the loan to close.

In short sales, the lender (the bank) will often take the loss for the shortage. The bank recognizes that it is better to take this kind of loss than to allow the home to go into foreclosure. Costs to the bank are much greater when the home is foreclosed, and the comparative loss for a short sale looks much better than the foreclosure alternative.

Here is another way to say it: Banks prefer to avoid foreclosure because it involves hefty fees and losses. Sellers prefer short sales over foreclosure because foreclosure is more damaging to the seller's credit rating.

All that being said, there are more complicating factors: The first is that banks don't want to lose any more money than they have to. If they can find a way to lose only \$5,000, they would rather do that than lose \$10,000. This makes each deal a negotiation, with the different parties weighing each other to get the best deal possible for their side. The back-and-forth negotiations can be protracted.

Another complicating factor is that the bank's mortgage managers are swamped. They have far more cases to manage than they can handle. Depending on the bank, it can be difficult for your agent to even get a call back on an offer, so protracted negotiations are not likely to be successful.

You can get a good deal on a short sale, but be prepared to wait. There is usually nothing "short" about a short sale.

The Foreclosure

The difference between a *short sale* and *foreclosure* is the owner. In a short sale, the owner is an individual – the occupant or landlord for the property. In a foreclosure, the owner is the bank. The bank will have taken the legal steps to remove the occupant and assume ownership of the property.

In a short sale, previous owners will have some knowledge of the history and maintenance of the property. In a foreclosure, the bank will have no such knowledge.

Foreclosures may sometimes be in acceptable condition, but foreclosures can also be the victims of angry, ousted former owners. In foreclosures, sometimes the walls may be damaged, appliances and fixtures removed, and items of value to the former owner may have vanished. In extreme cases, the electrical wiring may have been torn out of the walls. If this is the case, it is unlikely that you can get the bank to pay for repairs. Foreclosures are usually a *take it or leave it* proposition.



The Real Estate Purchase Contract (REPC)

After you solidify the agency contract and settle on which home to buy, the Real Estate Purchase Contract (REPC) will become the centerpiece of the home buying process. Your realtor will use the REPC as the legal instrument to make the offer. The REPC outlines the legal duties and responsibilities for buyer and seller. It identifies any down payments, and creates a set of dates for ongoing steps.

The REPC lists the legal property description, identifies any water rights, outlines the purchase price, and shows the type of financing. It indicates when possession of the home can be taken, provides for title requirements, and lists due diligence requirements. As a real estate professional, your realtor is required to use this form.

Individual buyers and sellers may legally agree to alter its provisions, or to use a different form. Doing so may invite unforeseen legal issues. Teams of the best minds in the state have spent countless hours working over each word of this form. My inclination would be to strongly discourage any urge to alter this form, or to attempt to use another.

The bottom line is this: Use the REPC. Read the REPC. Understand the REPC. Meet the deadlines identified on the REPC. Your realtor will help you complete these tasks – it's what they do. This is the best way to avoid legal issues down the road.

What Kind of Buyer are You

Before you begin looking for a home, it can be very helpful to know yourself. Buying a home can be an overwhelming and stressful task. It turns normal people into very colorful individuals. Now, while *you* are absolutely normal, your agent will certainly be able to tell many stories about others who have made their profession very, very difficult.

When Jekyll gets stressed, he turns into Hyde. He didn't have a lot of choices: Jekyll + Stress = Hyde. That was it. As a home buyer, there is a wider array of new personality choices. You change.

You could become the Analyst, the Shark, the Lookie-Loo, the Diva, the Unprepared, the Overwhelmed or perhaps even the psychopath. Perhaps you can already predict which of these varieties of buyers you are most likely to become. If not, we'll describe that group for you to gain greater insight into your own brain's programming.

The Analyst

Analysts are often accountants, engineers, or management. These are the "detail" people; individuals who want to compare a historical valuation of the property with its current value. They want a breakdown of the number of square feet, the garage space, bathrooms and kitchen amenities, relative to other homes in the same price range. You also need to compare homes of the same style and within a 3.142-mile radius of the property. With that information, the Analyst may create a computer-based algorithm using differential equations to analyze the strength of his decision making. Then he'll begin months of beta-testing and revisions before using the software on his home-purchase decision matrix.

If you're an analyst, please – tell your realtor. He can help you with your algorithms. He can feed you data. He can help you download like a hacker from Hades. Let him know and you'll both be better off.

The Shark

Sharks swim through the ocean looking for anything that's stressed, weak, or injured. They grow their svelte figure and their sharkish smile on knowing where the best meals are, and how to attack with cunning. Home Sharks are individuals who look at the property first as an investment, and then as a place to live. The home may be trashed, or it may be exquisite, but what the shark wants to know is *how good a deal is it?*

The shark is less concerned with the condition of the property because he knows he can fix it. He welcomes asbestos. He salivates when he hears of terms like "meth" and "mold". He focuses on foreclosures and homes with "warts" that others won't accept. The shark is willing to do considerable work on the place, but only if the price is right. Sharks are looking for the wounded homes, the distressed. When they smell blood, they attack.

If you're a shark, tell your realtor. He can focus on the deals, search for the best key words like "short" and "bank", and find you a bleeder. Arm him with knowledge that you're a shark– he'll help you get a tasty one.

The Lookie-Loo

You gotta love the Lookie-Loo. Your realtor can certainly name a dozen of them that he has personally worked for - with emphasis on the word "work". The Lookie-Loo isn't sure

what they need, and wants to be shown two dozen homes, every weekend, for a year. By the time the Lookie-Loos are ready to make a purchase decision, many realtors will have retired to the Caribbean. They've earned it.

If you're a Lookie-Loo, tell your realtor. It will help him focus on his Caribbean fund.

The Diva

The Diva is the individual who wants things perfect; not just perfect, but *their* kind of perfect. If the carpet is the wrong color, the home just won't do. All fixtures and amenities must be spotless. The place must inspect perfectly, and it must be owned by a retired couple who never had children, pets, spiders or head lice.

For a Diva, the sidewalk must not be cracked. The carpet must match the tile, and the range must bear the correct brand. The Diva will look only for homes that are manicured, inside and out. The Diva will consider this to be a "low maintenance" home that he or she believes will be problem-free.

If you're a Diva, tell your realtor. He knows how to find the homes that sparkle, and avoid wasting your time – and his – on second-rate shacks.

The Unprepared

The unprepared buyer doesn't know how much home he can buy, so he just wants to see everything. He has been behind on his payments and he can't get a home loan, but he doesn't want that to get in the way of looking for a house.

The unprepared doesn't know what kind of home he wants. Rambler? Two story? Mountain cabin? He has no idea. He doesn't know what cities he should be looking in, or whether a kitchen or back yard is more important.

If you're among the Unprepared, let your realtor know. Then he'll know how to guide you. This is OK with most realtors as long as he knows it's coming.

The Overwhelmed

You might be able to guess what the overwhelmed buyer looks like. Maybe they have 16 kids. Maybe they only have one, but that child spends all his time swinging from the chandeliers. The overwhelmed buyer is most comfortable with the homey ambience of overfull garbages, diaper piles, laundry in the kitchen sink, and unfinished homework from 1984.

When looking for a home, the overwhelmed can be like the Unprepared: he or she doesn't know where to start. If this is you, your baby is constantly crying while you look for homes, the kids are fighting and calling you to complain, and the husband wants to know when you're coming home to make dinner.

If you're overwhelmed, tell your realtor. She may have already figured that out before you gather yourself to tell her. Nonetheless, do her the courtesy of telling her. She'll appreciate the gesture and she can take steps to make the process less overwhelming.

The Psychopath

Last, we have the psychopath. This is the individual who's afraid of everything. Is the realtor trying to cheat us? Is that

mold? Was that sheetrock done well? Is the government surveilling this house? How do I know if the home will fall down? Why didn't they disclose the spiders in the basement? And, didn't they know I hate cats? Why did they allow cats in the home?

If you're a psychopath, send your wife. Move in to the home after she tells you it's OK. Sign what you have to when you're asked, and accept that what you're moving into was the best choice for your circumstances. This is better than inserting your own psychosis into the mix – you might just wear everyone out and settle on the dingy place you're already in.

Getting Offended

Let's face it. Being a card-carrying member of one or more of these categories is not very complimentary, but we all have some of these characteristics. That's OK. It's normal. But it's also helpful to recognize our characteristics going into the process and deal with them as we continue forward. It's more helpful to contain our psychosis than to let the psychosis control the decision making process for us.

My grandmother used to say that if you're willing to laugh at yourself, then others will laugh at you less.

Actually she didn't say that – ever.

But it's a good point.

As we move through the process, be aware of who you are. If you're a Diva, or a Shark, or whatever you may be, this book will continue to gently insult you. It's all in fun, and will make you more likely to succeed in house-hunting. Furthermore, it's better to laugh at yourself through

impersonal abuse than have your realtor hang you in effigy after the deal is done.

So be prepared: If your description hits too close to home, smile. At least you know who you are. Personally owning it will make you more successful.

What's Important to You?

Are you getting to know yourself better? That's good, because awareness of who you are and what you want is a vital part of success as you move forward.

That said, another set of questions should be addressed. It starts with this: what is important to you? If you're married, then I invite both of you to use the following quiz. Regardless of your buyer personality type, the quiz will help you identify what's important to both of you.

Please rate each category from 1 to 10. A one will be a weakness or deficiency that you can deal with. A ten will be an item that you absolutely must have right, or the deal is off.

If you are married, you and your spouse should both take the "What's Important to You" test, and discuss any differences you have.

What's Important to You?

Category	His Rating	Her Rating
Must have 3 car garage or larger		
Must have 3 or more bathrooms		
Must have 3 or more bedrooms		
Must have finished landscaping with a sprinkler system		
Must have a large back yard with amenities (Spa, playground, etc)		
Home must be very clean		
Kitchen must be spacious		
Kitchen must have granite countertops		
Home must be newer than 2000		
Home must be newer than 1960		
Once you decide, you must close quickly (Can't wait weeks/months for a drawn-out short sale)		
Must have no termites, radon, meth, mold, asbestos, etc.		
Must be in sparkling condition – no fixer-uppers		

Rating method 1-10

1: Disagree / Not important – 10 Strongly Agree / Extremely Important

Now I invite you to go back and add up your ratings. If your total exceeds 100, you may be a Diva. If it's lower than 50, you may be a Shark. If one of you is a Diva and the other is a Shark, you may wish to have some very involved conversations with each other before you involve a realtor – his or her psychologist fees are probably high enough already.





The Mortgage Process

While other steps in home purchasing may seem more like single events, the mortgage process will be an ongoing process. The process begins with the mortgage company, and it ends there. You will definitely get to know your loan officer.

To simplify the process, the typical major steps in the mortgage process are these:

- The Prequalification
- Selection of a Program
- Application
- Credit and Documentation Review
- Ordering the Appraisal
- Processing and Underwriting
- Closing

Prequalification

The pre-qualification is the process through which the lender determines how much house you can afford. They do this by gathering information about your income, debts and credit. Different loan programs have very different requirements, so you should get prequalified for any loan program you may use.

In prequalifying you, a lender looks at three factors. These are often called the “three C’s” of credit: *Character, Capacity* and *Collateral*.

Character

For the purposes of the loan, your Character is defined as your willingness to repay the loan. This is determined by examining how you have paid previous commitments. The lender will look at your credit report and perhaps your rental payment history. Willingness is also related to how the property will be used. For example, will you be living there or renting it out? If you live there, there is less perceived risk for the lender.

Capacity

Capacity is defined as your ability to repay the loan. To determine your capacity, the lender will verify your current employment and total income. Generally, mortgage companies prefer a two-year employment history at your current job. They also prefer you to have been in the same line of work for a few years.

Collateral

Collateral will be any funds that could be used to repay the debt if your income changes. Collateral is measured in assets such as real estate, personal property, investments, savings, or down payment. In the case of a refinance, it is the amount of equity you have in your home.

Each application is reviewed separately, on a case-by-case basis. If you are short in one area, a stronger area can make up for a weaker one. Mortgage companies need loans, and they want to help you qualify.

Mortgage Programs and Rates

Much has been said in the political arena about mortgage companies pushing home buyers into the wrong loan. In the author's opinion, the problem may have more to do with home buyers failing to educate themselves, and selecting the wrong loan.

To select a mortgage program, you need to think about how long you plan to keep the loan. If you plan to sell the home in a few years, an adjustable loan may make more sense. If you plan to keep the house for a longer period, a fixed loan may be more suitable. Typical fixed loans may be for 15 or 30 years, and other loan terms may be available.

There are innumerable mortgage programs you can choose from, each with different rates, points and fees. Shopping for one of these loans can be time consuming and frustrating. An experienced mortgage professional can evaluate your situation and recommend the most suitable mortgage program. In the end however, the selection for a mortgage program is yours. Choose this program thoughtfully: it will affect you every month for many years to come.

The Application

Now that you have been prequalified for a loan, and have selected the kind of loan that best fits your needs, the next step is to select the right home for you. If you've reached that point, your next step is the loan application.

Many mortgage professionals consider *The Application* to be the true start of the loan process. With the help of a mortgage professional, you complete the application and provide the required documentation. You will need to provide

a two-year residence and work history, asset & debt information, and other personal information.

Different fees and closing cost estimates should be discussed while examining the many mortgage programs. These costs will be itemized in the Good Faith Estimate (GFE) and the Truth-in-Lending (TIL) statement, which you should receive within three days of the submission of the application.

Credit

The most common term for credit scoring is called the FICO score. This score was developed for the three primary credit bureaus: Equifax, Experian, and Trans Union.

The FICO is limited in what information it measures. It does not consider income, savings or down payment. Credit scores are based on five factors:

- Your payment history (35%)
- Amount you owe (30%)
- How long you have had credit (15%)
- New credit being sought (10%)
- Types of credit you have (10%)

The FICO score is useful in directing applications to specific loan programs and to certain levels of underwriting. The FICO is not the final word regarding the type of program you will qualify for, and does not by itself determine what your interest rate may be.

How to Improve Your Credit

These are some of the ways that you can improve your FICO score:

- Pay your bills on time
- Keep balances low on credit cards
- Limit your credit accounts to what you really need. If you don't need it, cancel the account.
- Check your credit report for accuracy
- Be judicious about applying for credit. Make sure that your credit is only checked when necessary.

Required Documents

You have found your home, selected the loan program, and made the loan application. Now it's time for you to prove what you showed on the application.

For many loans, you will need the past two years W-2's and one month of pay stubs. You may need to provide the past two years tax returns, a copy of your first mortgage note, and your deed of trust. You should also be prepared to provide the past two months bank, stock and mutual fund statements, as well as any other applicable savings or investment account information. It may be unpleasant, but these will help you get the loan and terms you want.

Then What?

The next steps fall in the hands of others. After your loan application is complete, the lender will order the appraisal, then move forward with processing and underwriting.

Processing

After the application has been submitted, the processor orders the credit report, appraisal and title report. The information on the loan application is verified, and inquiries or credit derogatory statements (late payments, collections or judgments) are addressed. If you have *derogatories*, your lender will likely require a written explanation to ease the lender's concerns about your loan.

The next steps are predictable: the processor examines the appraisal and title report, checking for issues that may require further investigation. The entire mortgage package is then put together for submission to the underwriter.

Underwriting

The underwriter determines whether the package is acceptable for a loan. If the loan is acceptable as submitted, it's approved. If more information is needed, the loan is conditionally approved and you are contacted to provide more information or documentation. The underwriter may also deny the loan if the package is unacceptable.

Closing

After the work is done and the loan is approved, closing is where the journey ends. Once the loan is approved, the file is transferred to the closing and funding department. The funding department notifies the loan officer of the approval and verifies closing fees. A time is then scheduled for the borrower to sign the loan documents.

At closing you should:

- Bring a cashier's check for the down payment and closing costs. Personal checks don't work.
- Review the final loan documents. Make sure that the interest rate and loan terms are what you agreed to.
- Verify the names and address on the loan documents.
- Sign the loan documents
- Bring identification
- Bring proof of homeowners insurance

After the documents are signed, the closer returns the documents to the lender. The lender examines the documents, and if all is in order, arranges for the funding of the loan. Once the loan has funded, the title company arranges for the mortgage note and deed of trust to be recorded at the county recorder's office. The loan is now complete.



The Home Inspection

The home inspection is one of a few optional steps as you move forward in purchasing a home. While you can choose to skip this step, doing so may be like being your own lawyer: If you choose to do so, your client is probably a fool. You're paying way too much for your home to roll the dice like that.

Home inspectors can be a varied group of individuals. Title companies are tightly regulated. Mortgage companies also have a substantial set of regulations they must abide by. Home inspectors are free as cockroaches to come and go, and in many states there are no regulations governing home inspectors.

Cockroach or Hero

Now, while the term "cockroaches" may be a fitting term for some inspectors, many can also be described as "heroes". A good inspector may save your life. In less dramatic conditions, a good inspector may help you to avoid buying a money pit. If you're the kind of buyer that's looking for a "lemon", then your inspector will clearly let you know what flavor of lemon you may be buying.

A good inspector can be better than your best friend. Good friends support you when you're being an idiot. Home inspectors help to prevent you from being an idiot. Given the choice between one and the other, you're better off with the inspector.

But how do you identify the difference between the roaches and the heroes? One reliable source may be your realtor, your friends, or others who have dealt with local home

inspectors. In many cases, your realtor will have seen the results of an inspector's work, and can make a recommendation.

If you ask and your realtor's eyes start to get shifty, it's because many realtors are directed not to "steer" their clients into one provider or another. If so, just smile and request a few names – they may provide you with a stack of cards, and wink at you as they hand you the one that they've had success with. Otherwise, you're on your own. There is one inspector at the end of this book – I hear he's pretty good.

Regardless, the choice is yours of who to employ. If you can get your realtor to make a suggestion, that's great, but ultimately it's your decision. Choose well - the stakes are high.

Home Inspector Qualifications

How to identify who's good? Telephone interviews are one of your choices, but everyone has a story. To help you wade through the roaches, look at the inspector's experience, his reputation, certifications, and any professional degrees or state certifications he may have. You may also be able to ask some indirect questions to gather information on his ethics.

Experience

It's one of the obvious questions: How many years have you been in the home inspection business? Be aware of the response: if the inspector responds with "I've been involved with the construction / real estate / bagging / shipping / remodeling business for xx years", then you know he didn't answer your question. You want to know how many years he has been a professional, full time *home inspector*.

Back in the early 1990's I heard an inspector say that you don't really know what you're doing as a home inspector until you've done at least 50 homes, and you're not good until you pass the 500 mark. I have found this to be somewhat true. More importantly, the wrong individual will never be the right home inspector.

Ethics

Regardless of the inspector's experience and certifications, no factor is more important than his ethics. Your home inspector's opinion weighs heavily on your purchase decision, and on the negotiations that follow the inspection. If that inspector has any agenda other than to do an excellent job, it will cost you.

Some inspectors are prone to find follow-on problems such as mold, radon, or "workmanship" issues. These inspectors then often propose themselves as the solution. This places the inspector in an impossible ethical position; one moment you trust his every word, the next moment you wonder if he is really a salesman. Better to have a home inspector that is there to be a home inspector – not an up-selling salesman looking for follow-on work. When performing your original phone interview, you may find that asking your inspector if he does follow-on work might help you find some of the cockroaches.

Background & Certifications

Often, out-of-work contractors or grocery store baggers turn to home inspections to augment a weak income stream. Despite the appearances, these individuals are poorly prepared for a profession in home inspections. They may know how to build a new home, but fail to understand the

nuances of older homes. These same individuals lack an understanding in identifying structural issues, environmental problems, and other items that may not be related to what they may have been building or bagging.

This is the reason that your cousin's uncle does not replace a home inspector. You may already understand that he thinks he knows everything. You know that he doesn't.

The right background for a home inspector begins with a certification. There are many certifying associations – almost as many as there are inspectors. Some of the better certifications are ASHI and NACHI. There is also All, AHIT, etc. It can be as easy to start a home inspector certifying company as it is to start a home inspection company. That being said, your home inspector should have some letters behind his name. It probably means that he has done more preparation to be an inspector than just take out an ad in the yellow pages.

Engineer

Perhaps the best guarantee of the required knowledge is the possession of an engineering degree. That degree and the right kind of experience can make a great inspector. Engineers understand the difference between structural movement and structural failures. They know the difference between stress and strain. If their training is right, they also understand environmental issues like asbestos and radon.

Certain types of engineers design heating systems, so inspection becomes an easier task. In all, engineers have completed thousands of hours to reach their certification – not tens of hours. While simply being an engineer is not a better preparation than contracting, it does provide some key insight as to the type of individual you may be hiring.

What to Expect in a Home Inspection

Given the absence of regulator oversight for home inspectors, the scope of a home inspection can be almost anything. In this section, we outline what a basic home inspection must include, and list what some inspectors consider to be upgrades to an inspection.

10.2 Issues

Recently, the Real Estate Purchase Contract (REPC) was changed. Prior to that time, the REPC required that sellers guarantee certain items to be *functional and in working order* on the day you move in. The old 10.2 list included the roof, structure, sprinkler system, kitchen appliances, plumbing, heating, cooling, and electrical system. If these were not *functional and in working order*, then the seller was reasonably expected to address the problem.

This is no longer the case. This section has been changed to contain more of a *buyer beware, and do your home inspection* message. Nonetheless, the old section 10.2 still outlines what a basic home inspection must include. If your inspector fails to address any of these items, he is not completing the basic set of tasks.

Environmental Issues

While 10.2 issues do provide a definition of the basic, vanilla inspection, other home inspection issues should not take second place. These include environmental issues such as Lead, Radon, Asbestos, Carbon Monoxide, Mold, Termites Meth and Hantavirus. Some of these may be overemphasized in the media, but all should be addressed by your inspector.

Safety and Security

In addition to 10.2 and environmental issues, there are the safety and security issues. Your home inspector should check doors, door frames and windows to determine the security level in the home. He should identify safety hazards in the garage and on the exterior. Sometimes there are exposed nail tips, or dangling wires. He should identify and document all of these. He should make it clear where the problem is, and what should be done about it.

Drainage

Despite all of the above, we have not yet addressed the biggest source of deficiencies in homes everywhere: the drainage system.

Most experienced home inspectors agree: drainage issues are the single greatest cause of home related problems. If he is experienced, your home inspector should appear somewhat neurotic about water entry in the home. Why so? Because he has seen water entry occur over and over again. He also knows an ounce of preventative maintenance can be worth a ton of cure. Your inspector should make your home's drainage condition, its sources and its remedies, very clear.

Preventive Home Maintenance

Many home sellers live life in something of an ignorant bliss; they don't know what they have missed until the potential problem becomes a disaster. Much of the value of a home inspection is not just to know what is wrong, but what could go wrong if conditions are allowed to continue.

What a Home Inspection Isn't

If you walk into an inspection understanding at least what the 10.2 issues are, you will be prepared to play your role in the home inspection. These are what the home inspection is primarily about. Conversely, home inspections are not about identifying aesthetic issues, workmanship issues, or even quality issues. They are not about documenting the presence or absence of pets or spiders. If there are dings or holes in the walls or carpet, these may be pointed out by the inspector to make sure you are aware, but this is not what the home inspection is about.

Inspectors are manly men. They have no idea what's pretty, so don't ask them about aesthetic issues. Experienced inspectors will avoid having to make an assessment of "pretty-ness" because they know they're horrible at it.

Home inspections are not about expecting the property to be "up to code", because not all homes were built yesterday. An experienced home inspector will hold the home to the standards of when it was built, with two exceptions:

- If something has been remodeled or replaced, that part of the home must be rebuilt to the standards in place at that time.
- If something is just plain unsafe, then it's unsafe. Electrical wiring originally built in the early 1900's will often come into this category.

You, There

Some home inspectors prefer that you not be there during the inspection. Others allow you to show up at the end of the inspection. My suggestion is that you absolutely want to be there, elbow to elbow with the inspector, the entire time

during the inspection. This way you can see how hard he works. You know what he finds to be a big problem, a little problem, a non-issue, or a show-stopper. You can see where the problem is, what the extent of the problem is, and you can learn how to deal with it.

All home buyers have their own specific set of knowledge, worries and concerns. If you are there with the inspector, you can make sure that your needs are met. It's much more difficult if you have to do that from a report.

Guarantees, Warranties, Etc.

Where the home inspection business is not regulated by any governmental agency, there are any number of "warranties" that the inspector may provide. These vary all the way from the use of a warranty company, to the self-insured, to the non insured.

For example, one inspector may say he has a guarantee. As you dig further however, you may find out that if he missed something, you have to pay to make a claim. Then you have to get a mediator of his choice (his wife?) to agree that he screwed up. After that, he may charge a "deductible" to come back out and fix the problem. If the problem has caused other problems, like a leaking pipe flooding the basement, his warranty may only cover the cost of the pipe repair.

That's one way to do it.

Another way may be for the inspector to limit his liability to the cost of the repair. For example, if the inspector missed something, and his fee was \$350, he may limit his liability to \$350. If the house burns down or the basement floods, his maximum exposure is \$350.

That's another way to do it.

A third group will simply state the truth. Home inspectors rarely catch all items, and to expect 100% perfection every time would be unreasonable. To deal with this reality, some inspectors will state that if they caught 90% of the problems, they did a great job.

At least this one is honest.

Still other inspectors will take a more middle-of-the-road approach. These may begin by conceding that perfection is impossible, and mistakes will occur. That said, if an important item is missed that should have been caught, the inspector will attempt to make it whole to the client.

I think that's good business.

It should go without saying that an inspector can only inspect what is inspectable. For example, no inspector can see through walls. This also means for example that if the plumbing system is off, there are certain plumbing items he will not be able to check.

No inspector is superman, but superman would be a great inspector. It is your task and opportunity to select the best inspector you can get. Your agent may be able to help, but the choice for the inspector will always be yours.



Is a Home Inspection For You?

The home inspection is optional. You can opt in or out. You can also opt in or out of licking frozen poles, swimming with crocodiles and testing electrical wires with your finger. These choices are all available to you. To help you decide if the home inspection is for you, a look at to the personality types may be in order.

The Analyst

As an analyst, you have run the numbers on your selection. You know the average value of the homes in the neighborhood; you know the average lot size vs. the size of your own lot. You know what the home is worth under standard market conditions, and you have carefully calculated your offer price and terms.

What you need to know now are the costs for upgrading your home to a statistical two-sigma quality condition. If there are cracks, how significant are they, who repairs them, what will they charge, and how soon can they get there? How old is the furnace? Does it need to be serviced? Is the filter in the right location and position? How extensive is the mold damage?

You will need all of this information and related values before you can continue forward with the negotiation. If you're an analyst, get the inspection.

The Shark

As a shark, you are probably looking at the inspection as an opportunity to further reduce the price. You have already found the best deal available through hard work and

research. You have negotiated with the seller carefully to get the best possible deal. The inspection takes you the next step. If the water heater is done, or the roof needs to be replaced, this comes out of your bottom line. That is, unless you have the home inspected. In many cases, substantive issues found during the inspection can be negotiated so the seller pays all or some of these expenses.

If you're a shark, and you choose to skip the inspection, you're not a shark. You're a minnow. You're one of those annoying little yapper dogs that thinks it's a Rottweiler. If you're really a shark, don't miss out on the inspection.

The Lookie-Loo

Home inspectors can be very helpful for Lookie-Loos. You have been looking for months. Years. You think you have found the right home, but you're not sure. What if it's bad? What if it's got radon? What if it had a dog? Cat? Minnows? You don't know. It's so confusing.

The inspector can help you identify what the issues are. Be aware that he will absolutely identify issues in your home – *no* home is problem free. If you get the right kind of inspector, he can help you understand what the issues are and know how to address them. Knowledge can then replace uncertainty. Confidence can replace fear. At that point, you will then be King or Queen of the World – at least as relates to your home.

If you're a Lookie-Loo, order the inspection. There is no substitute for certainty in your world.

The Diva

You're a Diva. Your world is perfection, your children are perfection. Your wardrobe and shoe collection are wondrous. You must have no less from that absolute signature of your own perfection: your home.

Your inspector will be less concerned about the beauty of the paint, or how well the décor matches with the carpet. He will, however, help you make sure that you have lighting in your most important room: the wardrobe closet. After all, how impossible would it be for you if you lacked lighting in your highly hallowed space?

Oh, and perish the thought: what if your home choice had Hantavirus? Meth? Asbestos? Or (gasp) termites? And what if the termites ate your shoes?

Don't let this happen to you. You need the best inspector known to man. Book him early – he's probably busy.

The Unprepared

Ah, the life of the unprepared. Bliss, until the day you wake up dead. Life is a happy-go-lucky moment, one after another, then the anvil falls on your head.

You don't need a home inspector. It's unlike you to find potential problems and fix them before they become disasters, so go ahead. Skip the inspection. Then just make sure you know where Home Depot or Lowe's is, so you can buy a pump when your home fills with water.

No, wait. That would be preparation. Forget about the Lowe's thing.

The Overwhelmed

Ah, the life of the overwhelmed. It's kind of like living the blissful life of the unprepared, only much, much more stressful. You're way too busy for the home inspection! After all, who's going to keep the kids from fighting or filling the basement with suds! That's right, you! The last thing you have time for is to order or even go to the home inspection!

Of course, skipping the inspection may result in your basement filling with suds for another reason – but at least the kids won't be the cause. Your roof may cave in from structural issues, leaving the kitchen full of soggy attic insulation, and you just might find out after you move in that none of the kitchen appliances work, but hey, that's what life is about – right?

You have lots of practice at being overwhelmed, and you can deal with it. Go ahead and skip the inspection.

The Psychopath

Living the life of a psychopath can be dramatic. Your wife is trying to poison you. The neighbors are watching you day and night. Your car's engine is being sabotaged by the remaining relatives of the squirrel you killed. The cameras placed at street light intersections are there to make sure the government knows where you are. Your realtor is trying to steer you toward all the worst homes and save the good ones for her other clients.

Through extensive research, *they* knew you would buy that home even before you started looking, so they built in hidden structural defects, designed to make the home fall down on you after you move in.

But you can get even. You're better than them! If you get one of the good home inspectors, he will clearly outline the many faults of the home. Structural, electrical, plumbing - all of it. The inspector may not be able to detect the hidden government cameras, but the radon they placed in the home to get you? Yeah, that's not a problem because you caught it. You beat them once again - this time, with a great home inspector.





The Appraisal

Back in the good old days, it was different. The buyer and seller would agree on a price. Someone would then call their brother in law, the appraiser. The appraiser would ask how what the purchase price was. He would then go out to the home, perform his motions, and come back with an appraisal for exactly the amount he was told to appraise it for.

Things have changed.

The State Clamps Down on Fraud

After a long spate of fraud, appraisers losing their licenses, jail time for some, and local banks losing millions, state government got serious. Now, appraisers are ordered from a “blind pool” of appraisal companies, and the state audits a substantial percentage of the appraisals performed by licensees. This means that an appraiser is now more afraid of losing his license than he is afraid of upsetting a client.

In addition, the blind pool means that a lender can no longer call his favorite appraiser. Instead, he calls a phone number that represents a pool of appraisers. An appraiser is selected from that pool by the pool administrators, and by no-one else. This also reduces any favoritism or sweetheart deals between the lender and appraiser.

The state has also widened the gap between you and the appraiser. In effect, they have gone to lengths to assure that you have no contact with the appraiser, and no control or influence over how he does his job.

The result is more sanity. Where there used to be pressure to overstate the value of a home, there is now a slight

downward pressure. In any case, the ways of the past are gone.

What Affects a Home's Value

Appraisers will evaluate a home based on a number of factors, each of which will weigh differently in different areas. Not surprisingly, the biggest factor in evaluating a home is generally location. After location, other factors can weigh in, including the following:

- Square feet
- Age of the home
- Bedrooms
- Bathrooms
- Acreage
- Water or animal rights
- Out-buildings
- Type of structure (rambler, two story, bungalow, etc)
- Landscaping
- Exterior Cladding (brick, stucco, siding, etc)
- Spas, home theaters, décor
- Condition / maintenance level

To evaluate a home, the appraiser will look at comparable properties, also known as “comps”. For example, let’s assume that you have a 10-year old, two story home with 1500 square feet of living space and a 500 square foot basement. Your appraiser will attempt to find other comparable homes within a small geographic radius which meet that description.

To arrive at his values, he will typically use recent home sale values (not home listing values), as the basis for his evaluation. If other homes have a bigger garage, a larger lot, or fewer bathrooms, there are factors he uses to adjust for

that so that everything equalizes – sort of – and a fair value is reached.

Valuing a Home

Appraisers can use three approaches to valuing a home. The *comparison approach* uses other similar and recently sold properties to determine value. This is the most common way to determine the home's value.

The *cost approach* determines what it would cost to replace the property. This method takes into account any physical deterioration, and functional or economic obsolescence.

The *income approach* is used in the appraisal of rental properties to provide an estimate of what an investor would pay, based on the income the property should produce. If you're buying the home for you to live in, this approach has little use in valuing the home.

When a Surprise Happens

Sometimes appraisals come in lower than expected. This often has to do with the data sources the appraiser uses. Let's assume that two similar homes are for sale in the same neighborhood. Both have the same number of square feet, with a similar floor plan, and both are the same age. Let's also assume that both are for sale for \$250,000. Based on the local competition, the seller may believe that his home is priced right.

Now assume that you agree to buy one of them for \$245,000 and an appraisal is ordered. Based on recent sold values, an appraiser may determine that the home is worth \$240,000. This is because he is not looking at what homes are listing for – he's looking at the values that resulted in recent sales.

When the appraisal comes in under the agreed value, one of three steps must follow:

- The deal is cancelled
- The buyer pays the difference, or
- The seller drops his price to allow the deal to go through. Sometimes this can trigger a *short sale*, bringing the bank into the negotiations..

The appraisal industry as a whole certainly deserves some attention in this buyer's manual, but the appraisal is entirely out of your control. As a buyer, it can be to your advantage that there is downward pressure for appraisers – it might mean that you get your new home for less than you may have expected. When you become a seller however, it will be time to pray that you get the right appraiser.

Pray powerfully – it's all you can do to affect the appraisal.





The Title Company

Title insurance: as a home buyer, you have probably heard the term, but do you understand what it is? What is your dollar actually paying for when you purchase a title policy?

Risk Elimination

Title insurers, unlike property or casualty insurance companies, operate under the theory of *Risk Elimination*. Title companies spend a substantial percent of their income in collecting, storing, maintaining and analyzing official records of real property. Their technical experts are trained to identify the rights others may have in your property, such as any of the following:

- recorded liens
- legal actions
- disputed interests
- rights of way
- other encumbrances

Before closing your transaction, the title company will “clear” those encumbrances to make sure that the home you own is really yours.

This way of doing business is different from that of most other types of insurance. For example, life and health insurance rates are based on actuarial studies. Premiums are pooled on the prediction of a certain number of claims per year. This is not how title companies do business.

The distinction between actuary-based insurance and title insurance is important. Actuarial insurance premiums are

ongoing. Title insurance premiums are paid once. They are paid to identify and eliminate potential risks before they happen.

The Goal with Title Insurance

The goal of title companies is to conduct such a thorough search and evaluation of public records that no claims will ever arise. Of course, this is impossible – we live in an imperfect world, where human error and changing legal interpretations make 100 percent risk elimination impossible. When claims arise, professional personnel handle the claim according to the terms of the policy.

What They Do

The issuance of a title insurance policy is quite labor-intensive. It is based upon the maintenance of a title “plant,” or library of title records, in many cases dating back over a hundred years. Each day, recorded documents affecting real property and property owners are posted to these title plants, so that when a title search on a particular parcel is requested, the information is already organized for rapid and accurate retrieval. This investment in skilled personnel and advanced data processing represents a major part of the title insurance premium dollar.

Proper title plant maintenance, research, evaluation, and legal interpretation are the foundations upon which a title policy rests. That is where most of your dollar goes, and that is the source of your protection and peace of mind as a homeowner in Utah.

Title Insurance Fees and Costs

If ever the term “regulated” were to apply to an industry, it might apply best to the title insurance sector. For example, state law requires that a title company charge its customers no less than its own cost of doing that business. This means that if there is a cost incurred by the title company in providing a policy, then that cost must be directly recovered by the title company, and documented proof for having done so must be kept.

The fees that can be incurred when seeking title insurance can vary. Some of these fees may include the following:

- Title insurance premium; this is a one time premium that ensures you have clear title to your property.
- Document preparation fee; there are a substantial number of documents that are involved in securing a loan and purchasing a property. These documents all have to be prepared with the proper information.
- Overnight fees – many times documents have to be sent overnight to the lender to ensure that the loan is funded in time. Sometimes it is also necessary to have documents sent out to a remote location to be signed by the borrower or seller.
- Recording fees – various counties charge to have documents recorded and remain on record with that county.
- Pay-off processing fees – if a prior loan is being paid off, that lender charges a fee to process the paperwork and have it properly recorded.
- Closing fee – the actual closing takes time and expense on part of the title company.

Sometimes a title company will show just a Title Insurance Premium and Closing fee. In this case the rest of the fees are grouped into the closing fee for simplicity sake, or as a requirement of the lender.

That's Not All

While the above represents many of the fees that you may see on your closing documents, it is not likely to be an all inclusive list. If you have any questions, please contact your title company. They will have answers to your specific questions.





The Homeowner Warranty

Buying a home can be a frightening concept. To protect yourself, you spend a tidy sum on title insurance, you spend more on the appraisal, and you have a home inspector go through the home like a fine-toothed comb.

Still, things can go wrong. My first home was brand new, and I had lived there for about a week when the dishwasher began to overflow. Imagine if you will - water all over the kitchen. This is why you should consider a home warranty.

My own experience is that home warranties can be like home inspectors; there are some heroes out there, and there are some cockroaches. If you get the right one, you can have an experience that makes you sparkle all over. Get the wrong one, and the sparkles become a bit more like bristles. That experience isn't one I'd recommend.

What a Home Warranty Is

All home warranties are different, so you will need to check on your own coverage. That being said, most warranties will cover the *functionality* of major items in the home. This includes the furnace, dishwasher, stove, oven, water heater, toilets, garage door opener, etc. If these break down while you're living there, and they fall within the coverage period, you're probably covered.

What It Is Not

Home warranties generally do not cover non-vital parts of the system. For example, if the toilet tank lid cracks but the toilet remains functional, you will probably not be covered.

Aesthetic issues are also not likely to be covered. For example, if the carpet gets stained, cleanup will be on your own dime.

Finally, if it was determined that the problem existed before you moved in, you may also be denied coverage. Be aware that these are “maybes”. Coverage varies from one warranty company to another, and you should absolutely understand that full coverage of any warranty before you buy it.

Is It for You?

Home warranties provide another layer of peace of mind, protecting you against that “Oh-No!” moment that everyone fears most when making a major decision. To help you get there, it may be helpful to refer to personality profiles. Much depends on how your brain is programmed, so we’ll look at the home warranty from each of those viewpoints.

The Analyst

If you’re the analyst, you’re already way ahead of things. You understand that home warranties are like other kinds of insurance. You have consulted the actuarial tables and calculated that the probability of expenditure relative to the subject fixtures is equal to a logarithmic 1.3 benefit/cost ratio. Or something like that. Really, the rest of us have no idea what you are doing in those calculations.

You may have also calculated that a 1.5-sigma probability disaster may take away 13.4% of your retirement savings fund, resulting in you having to work another 2.3 years to make up the cost. If you’re OK with that, then go ahead and roll the dice. The dice are yours to roll.

The Shark

You're a shark. You're always looking for ways to find money, make money and keep money. In some ways, your thinking may be similar to that of the analyst. You figure the probability of an item requiring coverage and compare that with the likelihood of failure.

If you're likely to be home when things go wrong, and you know how to fix everything, that's one scenario. On the other hand, if you're out sharking most of the time and your wife is left to take care of the problems, that's another. She might turn into a bigger shark than you if you leave her to solve the disasters while you're out looking for fish.

The Diva

As a Diva, the home warranty is a no-brainer. Not only do you want the perfect home, with a perfect yard in the perfect neighborhood, but you want a perfect backup plan in case things don't go perfectly. It may look like the perfect home, but when things do go badly, do you want to clean that grease trap yourself?

Didn't think so. I'd advise the home warranty.

The Lookie-Loo

If you're a lookie-loo, it's hard for you to make a final decision. Should you get this warranty? Should you get another one? Should you not get one? What does mom say? What does the realtor think? You're so confused.

Let me put it this way: decision making may not be your strong point. That being the case, if your dishwasher overflows, do you want to be the decision maker on whether it should be fixed or replaced? Do you want to decide what brand of dishwasher should be installed? How many cubic feet? How quiet should it be? How much should you pay?

Choose to save yourself some grief. Your life is too difficult already. If you're a Lookie-loo, get the warranty. It might just save you some serious hand-wringing.

The Unprepared

As an unprepared, your temptation may be to avoid the warranty. After all, why prepare when you could be you? Wouldn't it be easier to just have the disaster happen, then watch helplessly as water fills your home? This is your comfort zone – why change it now?

I'll leave it up to you on the warranty. Getting one might be a hard thing for you to do – it just goes against your grain to prepare like that.

The Overwhelmed

Getting protected? What are you thinking of? How can you live the life of the overwhelmed housewife (or house-dude) if you go about preparing for things?

So let's say the furnace breaks down. The place is ice cold, and you don't have \$10 to your name. You of course didn't do the home inspection so the furnace thing is a complete shock to you. The kids have a recital in the house this afternoon, and your hair is frozen to your scalp because there's no heat.

You could have chosen to purchase a home warranty – they would have taken care of your furnace issues for you – but that’s not how you roll. Definitely, if you’re overwhelmed, skip the warranty. It will mess with your lifestyle.

The Psychopath

So, you’re a psychopath. That darn realtor probably did research on which homes had the worst plumbing. There’s a secret map that shows which homes have sewer lines that are about to burst, and she’s showing only those homes to you. The sellers are all out to get you. Worse, once the neighbors find out you moved in, they’ll come in and sabotage your microwave in the middle of the night.

Well, you’ll show them. You get the home warranty and when things go bad, you don’t have to pay for it! What excellent revenge is that! They wasted a night’s sleep to get you, and you’re still OK!

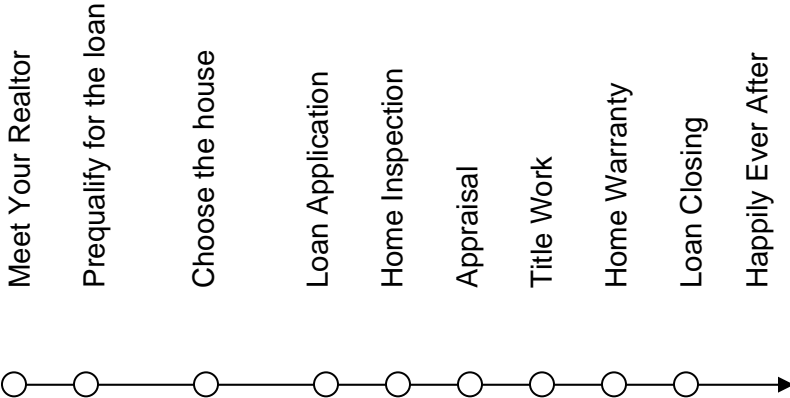
If you’re a psychopath, get the warranty.





Timeline

A simplified timeline for the path you will take in finding and purchasing your home



The Beginning

If you have reached this point in the home buying process, there is a real good chance you have a new home to move into. Congratulations!

If this book has been helpful in getting your home, there is another that will help you take care of what you just bought. Perhaps your realtor or mortgage company will get you a copy – if not, go to www.homeguidez.com and get yourself the Home Maintenance Guide.

Funny thing about homes. Little stuff like toasters come with user's manuals. Homes don't, and taking care of your biggest investment is a real good idea.

My suggestion? Get that book soon - good book. I know the author.

About the Author

Garth Haslem is the owner of Crossroads Engineering
doing home inspections since 1993

He has built his business
on one principle:

Make every client
not only satisfied, but
passionate
about the way he does
home inspections.



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