

How to Buy a House

Sarah Ward
REALTOR® DRE#01943308
858-431-6043
Fine & Coastal Real Estate



Real Estate Myth: 20%

Reality: 0%, 3.5%, 5%, 10%, 20%, etc.

3.5%

- FHA – government backed loan
- Less strict qualifying standards
- PMI – private mortgage insurance
 - Any loan less than 80% LTV (loan to value), meaning 20% down, requires some amount of PMI.
 - This is a fee for having a low down payment loan. You don't get it back but it is tax deductible.

Real Estate Myth: Dream Home

How Regular People Build Wealth with Real Estate:

- Buy a property to live in
- Slowly add upgrades (sweat equity)
- Home values go up over 2+ years
- Sell current property with a tax-free gain
- Use profits as down payment on a bigger/better house
- Repeat

The Two-Year Tax-Free Gain

“Here's the most important thing you need to know: To qualify for the \$250,000/\$500,000 home sale exclusion, you must own and occupy the home as your principal residence for at least two years before you sell it. Your home can be a house, apartment, condominium, stock-cooperative, or mobile home fixed to land.

If you meet all the requirements for the exclusion, you can take the \$250,000/\$500,000 exclusion any number of times. But you may not use it more than once every two years.

The two-year rule is really quite generous, since most people live in their home at least that long before they sell it. (On average, Americans move once every seven years.) By wisely using the exclusion, you can buy and sell many homes over the years and avoid any income taxes on your profits.”

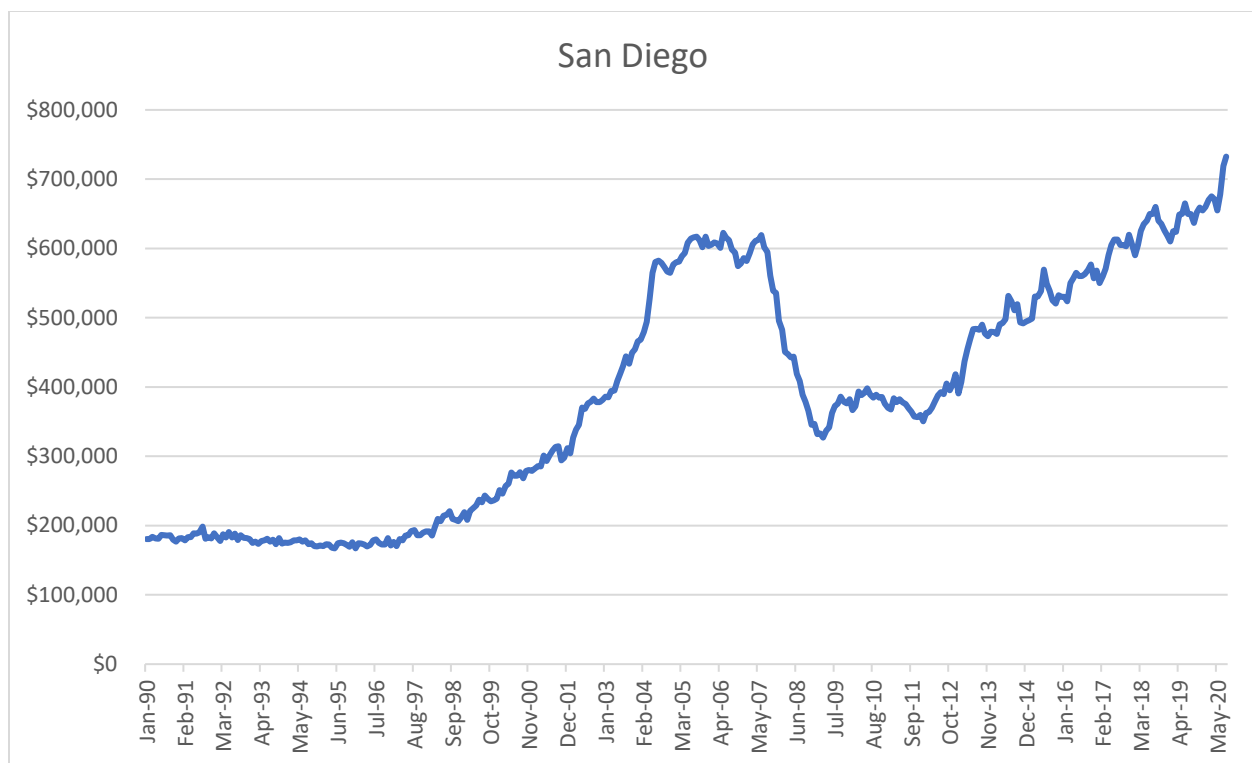
**Always consult a tax professional

How YOU Can Do This!

- Buy an FHA approved condo or townhome for \$400,000. Put 3.5% (\$14,000) down.
- Over the next two years spend \$25,000 remodeling: flooring, paint, new kitchen, new bathroom(s). Pay the loan down a little each month.
- Sell for a profit. (Maybe \$475,000 or more!)
- Walkaway with tax free cash (Estimated \$70,000 for this scenario)
- Buy a bigger/better property
- Repeat

** This is just an example scenario, I can't predict the future

San Diego Home Prices Over Time



10 Step Home Buying Process

1. Find a Real Estate Agent
2. How Much Can You Afford?
3. Narrow Down Your Home Search
4. Get Pre-Approved
5. Home Shopping
6. Submit an Offer
7. Escrow
8. Inspections
9. Removal of Contingencies
10. Close of Escrow

1. Find a Real Estate Agent

When choosing a real estate professional, be sure to find someone knowledgeable, who will keep your best interests in mind while helping you achieve your goals.

2. How Much Can You Afford?

Your REALTOR® can help you find a lender to determine which loans you qualify for and a maximum purchase price. There are many types of loans you may be eligible for. A good lender will find you the best loan with the best rate.

3. Narrow Down Your Home Search?

At this point you and your REALTOR® can start to look at various neighborhoods and home types to hone in on exactly what you are looking for. Alert emails can be set up to notify you of new listings matching your parameters.

4. Get Pre-Approved

In order to put an offer in on a house, you want your loan to be as far along as possible. Loan pre-approval is great, but you can take it further and have your loan pre-underwritten to make your offer as strong as possible.

5. Home Shopping

Once your loan is pre-approved, you are ready to go out and shop! This is the fun part. You'll look at many properties so be sure to eliminate as you go so you don't get overwhelmed.

6. Submit an Offer

When you decide you are ready to purchase a specific property, your REALTOR® will prepare the offer paperwork and help you decide on an offer price. There are many terms besides price that go in to an offer that can help you get the house.

7. Escrow

When your offer is accepted, escrow opens. You now have 3 business days to provide your initial deposit (a piece of your down payment) to escrow. Don't worry, if you walk away during the inspection period, you will get this money back!

8. Inspections

This is your chance to thoroughly inspect the property until you are satisfied with the condition. Walls cannot be opened, but a high-end home inspector will determine if there is cause for concern.

9. Removal of Contingencies

After inspections, a second negotiation occurs: request for repairs. After both parties agree on repairs, & your loan is cleared for close, contingencies are removed. At this point, you may lose your deposit if you walk away.

10. Close of Escrow

Escrow usually lasts 30 days. In the last few days, loan docs are signed, your down payment is submitted, and the loan funds. The last step is recording and then the house is yours!

Buyer Closing Costs

- Cost for Inspection(s) & Appraisal
- Loan Fees
- Title Fees
- Escrow Fees
- Fill Impound Accounts

PITI: Principal, Interest, Taxes, Insurance

Impound Account

- With an impound account each month you pay your regular principal and interest plus 1/12th of your annual property taxes and homeowners insurance premium.
- Monthly payment is higher but no lump sum payments for property taxes and insurance.
- Closing costs are much higher because you have to “fill” your impound account. You are prepaying some items and surpluses are returned to you after the first year.
- FHA loans require impound accounts

3.5%: FHA Approved Condos, FHA Approved Townhomes, Single Family Houses, 2-4 Unit Properties

2-4 Unit Properties

- Duplexes, Triplexes, Fourplexes
- Considered residential and allow for residential loans including FHA
- Can use the rental income to qualify
- More units, higher allowed loan amount
- Anything 5 units or more is considered commercial

Duplex Example

- \$700,000 purchase price for 2 units, one vacant, one rented for \$2000/mo
- Owner occupied FHA loan
- Down payment \$24,500 + Closing Costs estimated \$15,000 with impound account. Cash needed ~\$40,000. (I'd recommend a little more for potential improvements.)
- 75% of rental income is added to your monthly income to help you qualify. (\$1500/mo)
- Estimated Monthly Payment PITI: \$4175/mo
- Your share: \$4175 - \$2000 = \$2175/mo

Real Estate Agent Career

Real Estate = Sales

Pros

Flexible schedule

High commission potential

Fun!

Ability to be creative and try different things

Every day is different

Cons

Commission only

Lead generating

Dry spells

Hard to do part-time as transactions require a lot of time and effort

Lots of competition