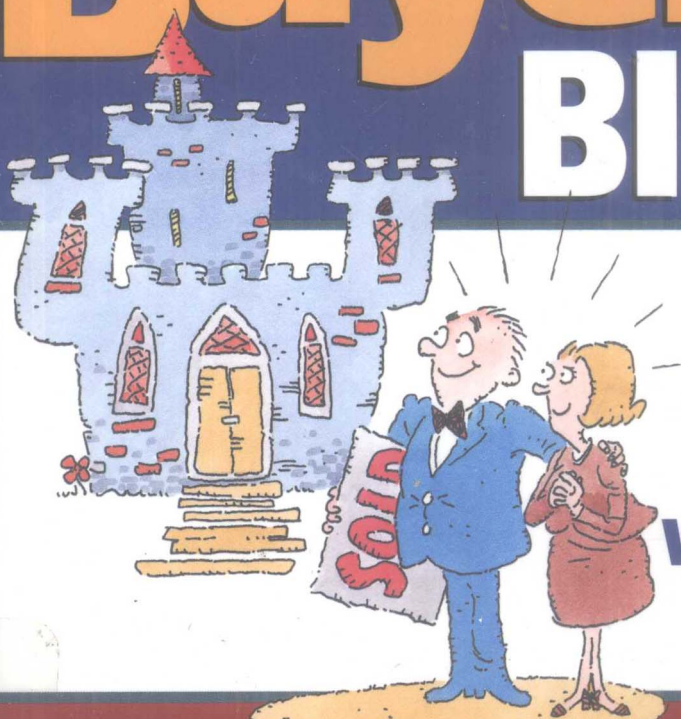


**Includes . . .**

- Pre-qualifying for a mortgage
- Finding money
- Negotiating the deal



# THE COMPLETE Home Buyer's BIBLE



**William J.  
Molloy**

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**William J. Molloy**



**John Wiley & Sons, Inc.**

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## ===== PREFACE =====

For more than 23 years, I have lived and worked in the real estate world. In 1971 my sister, a licensed real estate broker, insisted that I take the exam for my salesman's license, "just in case something comes along."

From that moment to the present, I have earned my personal Ph.D. (Paid His Dues) degree from the Street University, School of Hard Knocks, through on-the-job training. I became a dreamer and a builder of dreams.

Throughout the years, I've gained experience as a licensed real estate salesman, a licensed real estate broker, and a commercial mortgage broker. I went on to manage, buy, build, and sell multi-family projects of more than 200 homes and then began my career building single-family homes.

To date, I have negotiated, designed, developed, and sold several subdivisions; bought and sold more than 150 building lots; and helped to design, build, and sell more than 100 new homes.

In all of that time, every time, I've achieved a wonderful satisfaction in realizing my dreams, helping others to realize their dreams, and experiencing the excitement of actually owning a piece of the earth.

This book is the culmination of my experiences. I pass them on to you to help you fulfill your dreams.

I would like to thank the following people who have helped and encouraged me to write this book and offer my appreciation to them in this small way: Carolyn Molloy (my partner in life and also licensed in real estate for 17 years), for endlessly editing; Marc Molloy (my son), for always asking; Marilyn Molloy, for encouraging me to dream; Ron Reid, for editing; Paul Ornstein (my attorney and longtime friend), for his enthusiasm; Anne Julian (a longtime friend), for her invaluable advice; Jay Paggi (my engineer and longtime friend), for the technical help; Pat Koerber Bombardieri, for her honest opinions; Bob and Ann Mullen, for their expert research abilities, and especially Mike Hamilton, Senior Editor for John Wiley and Sons, for his enthusiasm and honesty.

# INTRODUCTION

Buying real estate is an evolutionary process that begins with an idea and ends with ownership. This requires the buyer to take one step at a time.

*The Complete Home Buyer's Bible* is the most comprehensive, easy-to-read, plain language, step-by-step guide you can buy. Read this book and you will learn how to locate, qualify, and purchase a resale home, second home, condo, co-op, or townhouse. You will learn about mortgaging and how to prequalify yourself before you walk out the door. You will learn not only which decisions you need to make but how to make the right ones. You will learn how to inspect a resale home, wells and septic systems, water tables, surveys, and more.

*The Complete Home Buyer's Bible* takes the stress out of the decision-making process by giving the buyer the information needed and explains how to use that information to make the right choices—one step at a time.

Refer to the corresponding chapter before you begin each step of the process, and you will find the entire process educational, exciting, and most of all, rewarding.

Throughout this book, I offer descriptions of my personal experiences, of problems I encountered in actual situations and how they were resolved. I also offer explanations for avoiding any confusion by doing your homework in advance.

*The Complete Home Buyer's Bible* will guide you through the maze of the professional terminology and explains how to beat the “paper monster.”

Whether you are a first-time buyer, a repeat buyer, or a licensed sales agent, you will find this book an invaluable tool for your success. When you finish reading this book, you will know as much or more about the “housing” end of the real estate business than many of those working in the industry.

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# SHOULD I OR SHOULDN'T I?

## WHAT IS REAL ESTATE?

**Real estate** is a combination of two words, *real*, which is defined as “that which has existence—not artificial or imaginary”—and *estate*, which is defined as “the degree, nature, and amount of one’s lawful interest in a property.”

We are born within it, we live out our lives scurrying on it, and eventually we will all become a part of it; but owing to society’s needs for regulation, the concept of real estate can be difficult to understand.

When you own a patch of land with or without your home (or condo or co-op) sitting on it, you own a piece of the planet. Your ownership will include everything from the depths of the earth to the highest point in the sky. This is the most fascinating aspect of owning real estate; it is a mystery and an adventure. But to join this exclusive club of real estate owners, you must first become initiated by surviving the complicated maze of terminology and documentation.

Those of you who have been out of the buyers’ market for a while and are considering reentering it will discover that the purchase process has changed considerably since the early 1980s—financing has changed as well as the laws governing

property transfers. Building codes have changed; brokerage laws, zoning laws, environmental laws, banking credit applications, closing documents, and contract forms have also all changed.

There is a certain internal language related to any industry, but to understand the purchase process is to understand not only how this language is interpreted by the professionals but also how it applies to you. In this book you will gain an understanding of both of these important points.

You will earn many titles as you follow this maze, and you will be treated differently with each title change. You began your adventure as a dreamer, and because you have decided to act upon that dream, your new title is **prospective purchaser**.

A prospective purchaser, or prospect, is someone who has decided to buy. This decision is a powerful one and will affect many lives. When there is a sale, many people and institutions make money, such as the broker, sales agent, attorneys, bank, and title company, not to mention the state and the seller. When you enter a sales office, it is not the same as shopping in a department store; you are the catalyst to a process in which a lot of money will change hands.

Now that you are a prospective purchaser, it is time to join one of the two basic buyer groups and earn a new title. You will be considered either a **move-up (repeat) buyer** or a **first-time buyer**. Move-up buyers have already been through the maze at least once and thus have experience. They also know more about what they need and want in their next home and what to watch out for. First-time buyers do not have the same advantages and are actually at the mercy of their advisors.

## RELOCATION

Corporate America is on the move because of downsizing and plant closings. Many companies are changing locations, and employees are either moving with their current employer or searching for new employment in other areas. Gone are the days when children grew up in the same neighborhood as had their parents, raised their own children, and then settled into the community. It used to be that people simply wished to relocate; now they often have to.

If you are being relocated by your employer, you now have another title, **relocation purchaser**. When relocation purchasers walk into a real estate office, they inform the sales professionals that they have a job, they can afford the financing, and they not only want to but *have* to buy. Relocated buyers' time is limited owing to job requirements, and the sales professionals know that they have a limited time to locate and complete the sale. Just as in any other business, a buyer gets preferential treatment over someone who is just looking. A prospective purchaser is *interested* in buying; the relocation purchaser *has* to buy and will receive preferential treatment.

## WHAT ARE THE FINANCIAL BENEFITS OF OWNING REAL ESTATE?

Whatever your reasons for moving may be, if you are a first-time buyer, buying a home requires a substantial financial commitment. It is an investment as well as a change of lifestyle.

If you are presently renting, your monthly payment covers the cost of your living space and occasionally includes certain utilities such as heat and hot water. The landlord takes care of maintaining the property, and you are able to quietly enjoy your space. You receive no tax benefits, and neither do you build equity or have total control over your living environment. For my money, the benefits of owning far outweigh the benefits of renting.

### Equity

There are millions of apartments out there occupied by millions of people who rent as a matter of preference or affordability. However, when you rent, you are simply helping to pay off someone else's mortgage. If your preference is apartment-style living, at least consider buying a condominium or co-op. The monthly payments will reduce *your* mortgage; you will build equity and receive certain tax benefits as well.

**Equity** is the money value of a property in excess of any debts that can be held against it. Like any other industry, real estate is dominated by the laws of supply and demand. If the supply is

great and the demand is low, prices and terms should be easier to obtain, and the reverse should apply if demand is high and the supply is low. Keep the laws of supply and demand in mind. Depending on the area of your search, understanding the local market can save you thousands of dollars in purchasing and financing your home.

Your rent payment is an investment in your lifestyle, not in the property. When you become a property owner, you are entitled to deduct certain property costs from your income taxes. Thus far, all interest charges and property taxes pertaining to your mortgage payment are fully tax deductible (see chapter 3). Because most of your mortgage payment will be interest in the early years of the loan, this deduction is substantial.

## Appreciation

In New York State during the hectic mid-1980s, properties were appreciating annually at more than 20 percent of their original value. Those values are adjusting downward now owing to the area's economy. However, homes that were constructed in late 1977 that sold for \$69,000 and appreciated to sell in the mid-1980s for \$269,000 are still reselling today for \$195,000—more than 2½ times their original value despite the economy. Buying a home is an investment that will give you tax benefits—as well as appreciation of your investment over time.

## Tax Benefits

Let's see just how much you can save by owning as opposed to renting. The following example shows projected monthly and annual numbers for the mortgage's principal, interest, taxes, and insurance. First, however, we need to review some terms you'll need to understand: **adjusted gross income** and **tax bracket**. Your adjusted gross income is the amount of income you claim after all of your deductions have been taken out, and your tax bracket is the percentage of your adjusted gross income that you pay in income taxes annually.

Review last year's tax returns and locate your adjusted gross income. Then check to see how much you paid in *total* (federal, state, and local) income taxes. Divide the amount you paid in

taxes by the adjusted gross income to arrive at your tax bracket. If your gross income was \$45,000 and you had deductions totaling \$2,000, your adjusted gross income would then be \$43,000. If your total income taxes amounted to \$16,340, then your tax bracket would be 38 percent, because \$16,340 divided by \$43,000 equals 0.38. (Because tax preparation is such an exact science, you should ask your accountant to calculate your tax bracket for you.)

### The Big Picture

Inflation hurts us in many ways by eroding our buying power—and helps those of us who own real estate by making everything more expensive and thus more valuable. As we all know, inflation rates change over the years.

If you were thinking of buying a home in a specific area, you would contact the local tax assessor and ask about the various prices and taxes of sold homes in your target price range. Review Table 1.1 to see how you could break down the expenses by month and year. The property taxes and your tax bracket would probably be different, but the formula is the same. Then review Table 1.2 to see how those numbers could add up to sizable financial benefits for you each year.

If you consider all the tax benefits and add the appreciation in value, you can see that your actual housing costs would be very little, even with the current appreciation rate of 3 percent per year.

**Table 1.1. Homeowner Expenses**

Projected mortgage amount	\$107,600.00
Estimated annual property taxes	\$2,700.00
Life of mortgage loan	30 years
Projected interest rate	8%
Projected monthly insurance	\$35.00
Estimated monthly property taxes	\$225.00
Monthly principal and interest	\$790.00
Principal, interest, taxes, and insurance (PITI)	1,050.00
Estimated purchaser tax bracket	38%
Estimated annual appreciation of property	+3%



**Table 1.2. Homeowner Savings**

Deductible interest the first year	\$ 8,608.00
Deductible property taxes	2,700.00
Total interest and tax deductions	11,308.00
Deductible tax and interest reduces income tax by	4,297.04
Property value increase	3,228.00
First-year principal mortgage reduction	1,292.00
Total first-year financial benefits	8,817.04
Monthly financial benefits	734.75
Actual monthly house cost	315.25

By deducting the interest and taxes, you would create a saving in income taxes of \$4,297. Your property would increase in value by \$3,228, and you would reduce the mortgage debt by \$1,292, thus increasing your equity in the property. Now add \$8,817.04 to your current total annual rent and ask yourself how much it is really costing you to continue renting instead of owning. Not only do you receive these benefits, but you also own the home, and you are building equity in the property every month. You will receive that equity upon the sale of the home. When you think about it, unless you rent for the lifestyle, you cannot afford *not* to own a home.

## THE SINGLE-FAMILY DETACHED HOME

Most home buyers prefer single-family detached homes. A detached home sits on its own private lot unattached to any other structure except possibly a garage or other building that services only that home.

The lot size will vary according to zoning requirements (see chapter 11), and the other lots in the surrounding area will usually be much the same size. When you buy a single-family detached home, you own the house as well as the lot the house sits on, and you are solely responsible for the upkeep of the entire property. You can change the house and grounds to suit your needs as long as you comply with local zoning, building codes, and deed restrictions if any (see chapter 11).