

**THE FIRST-TIME BUYER'S GUIDE
TO AFFORDABLE HOME OWNERSHIP**

Yes!

**YOU CAN
OWN THE
HOME
YOU WANT**

**22 WAYS TO BUY
WITH LITTLE OR NO MONEY DOWN**

11 WAYS TO OVERCOME CREDIT PROBLEMS

**9 TECHNIQUES TO OBTAIN
LOWER MONTHLY PAYMENTS**

**17 STRATEGIES TO MAKE
QUALIFYING EASIER**

GARY W. ELDRED, Ph.D.

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OWN THE
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YOU WANT**

GARY W. ELDRED

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FOREWORD

Owning a home, along with steady employment and obtaining an education, are the components of the “American Dream.” These goals are what most people consider necessary for long-term financial security. Of these, home ownership often is regarded as the most difficult to achieve. However, those who choose owning over renting consistently report that it is worth the sacrifice and effort required to buy a home.

Although some renters truly are barred from buying by financial constraints, a large majority of renters are passing up a great opportunity to own simply because they believe—mistakenly—that they can’t afford to buy. In many cases, the perception most renters have of buying is far more arduous than reality.

Speaking as a real estate professional and on behalf of the NATIONAL ASSOCIATION OF REALTORS[®], my message to anyone considering buying a home is this: Buying a home may be *easier than you think*. Indeed, in this new book, home ownership advocate Gary Eldred explains dozens of techniques and strategies that — regardless of your present circumstances — can help you move up from renting to home ownership. Just as important, keep in mind that you don’t have to go it alone.

Although your home buying process may at times seem overwhelming, an experienced real estate professional can guide you through each step—from choosing the type of home that suits your needs to explaining various types of home financing possibilities.

It’s best to be as calm and objective as possible when you decide to make an offer on a house. However, finally locating a place that says “home” to you is an exciting and emotionally charged experience. A real estate practitioner can help you make the decision that is right for you, providing service that is quick

and efficient. Remember, real estate professionals spend their days looking at homes; comparing neighborhoods; and evaluating schools, special services, public transportation, and, in general, the quality of life a community can provide.

Once you've decided to enlist the help of a professional, it's important to find the right one. When selecting a real estate agent, consider asking the following questions: How long have you held a license? Have you earned any professional designations? Are you a full-time practitioner? How familiar are you with this area? Take the time to find the agent who best fits your needs. Trust me: It's time well spent.

Another tip: When selecting a real estate professional to assist you, be sure to work with a REALTOR[®]. REALTORS[®] are members of the NATIONAL ASSOCIATION OF REALTORS[®] and are bound by a strict Code of Ethics. Your peace of mind and the most important investment of your future are at stake. It's in your interest to seek the best home buying assistance available—the service of a REALTOR[®]. You deserve nothing less.

GILL WOODS
President
NATIONAL ASSOCIATION OF REALTORS[®]

AUTHOR'S NOTE

Throughout the past 20 years, the most frequent complaint I've heard from renters is this: "I wish we could have bought a home years ago." Next, these renters often have added, "But we really didn't have the money to afford the home we wanted." If this is what you think, you need to think again.

During this past year, thousands of Realtors, mortgage lenders, home builders, and not-for-profit housing groups, as well as hundreds of federal, state, and local government agencies, have joined a national initiative to assist at least 10 million more individuals, families, and alternative households to become homeowners by the year 2000. "This initiative," says U.S. Department of Housing and Urban Development Secretary Henry Cisneros, "will spark a dramatic expansion of home ownership to include millions of families and individuals who today barely dream of becoming homeowners."

In announcing this initiative at a White House "Home Ownership Event," President Clinton said, "I want to thank again all of the people here from the private sector who have worked with Secretary Cisneros on this initiative. Our home ownership strategy will not require more legislation. It will not grow the federal bureaucracy. It's 100 specific actions that address the practical needs of people who are trying to build their personal version of the American Dream . . . [especially those families] who have historically felt excluded from home ownership. . . ."

What's included in these 100 specific actions? Virtually everything you can think of to make home buying and home financing easier: innovative low- (and no-) down-payment mortgages; lower closing costs; advanced information technology; more flexible qualifying standards; more liberal qualifying ratios; ways

to overcome blemished credit; home buyer counseling; mortgage bond money; mortgage credit certificates; “fixer-upper” financing; special financing from new home builders; and much, much more. All of these strategies and techniques and dozens of others are discussed in this book. Also, please see Appendix I.

In one of my previous books, *The 106 Common Mistakes Home Buyers Make* (John Wiley & Sons, Inc.), I emphasized that “continuing to rent is the greatest mistake of all.” Now, relying on the knowledge contained in this book, a committed Realtor and loan advisor, and a positive “can-do” attitude, you can easily avoid making this mistake. I’m confident that with our new national private–public strategy to expand home ownership, if you want to own your own home, you can own your own home.

If you have any questions whatsoever about home buying, choosing a Realtor, or home financing, **please give me a call at (800) 942-9304 (extension 20691)**. I would very much like to hear from you. Good luck, and I wish you the best as you move toward this all-important goal.

Gary W. Eldred

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INTRODUCTION

YOU CAN OWN THE HOME YOU WANT

“We couldn’t believe it,” exclaimed an enthusiastic Jennifer Wirtz. “Last month we looked at the same home we had really wanted several years ago. It had just come back on the market. The earlier asking price had been \$239,000, and the sellers wouldn’t budge. Its new listing price was \$198,000. We got it for \$187,500. Even better, our payments will be \$600 less than if we had actually been able to afford the home several years ago.”

“Better still,” said their Realtor, Ebbie Kaufman, “the reality is that even with our area’s relatively high housing prices, first-time home buyers like the Wirtzes can get into home ownership almost as cheaply as they can rent.”

In the Denver, Colorado, suburb of Englewood, Anita Fowler, age 27 and a nurse at a nearby clinic, just bought her first home. She got a great three-bedroom, two-bath brick bungalow for just \$78,700. “The home needs more than a little T.L.C.,” Anita said, “but with my talent for decorating and design, I know I’ll be able to increase its value. I just feel so lucky to get it. My Realtor learned the home was coming onto the market, telephoned me, and then got my offer accepted even before it went into the Multiple Listing Service (MLS).

“I’ve been wanting to buy for several years,” Anita admitted. “Yet I was uncertain about the economy and whether homes were still a good investment. Now I know I made the right decision. The Denver housing market has really recovered from the severe downturn we felt after the energy bust. Besides, you can’t believe how good it feels to come home to your own home. I liked the condo I was renting, but my heart is now in my home.”

A NEW CYCLE BEGINS

For the past two years, newspaper and magazine articles all across the country have reported great opportunities for first-time home buyers. "First-time home buyers are leading the market—lower mortgage rates and home prices are turning renters into owners," reports *The New York Times*. "Deals too good to last," writes *U.S. News & World Report*. A *Parade* article spotlights "the very best deals" in a dozen different cities throughout the United States. Another article in *The New York Times* says, "Low interest rates and a large inventory of unsold homes are making it possible for many first-time buyers to enter the housing market for the first time in years."

Sales data from the National Association of Realtors (NAR) confirm *The New York Times* reporting. The NAR says that during the past 12 months, first-time home buyers have accounted for nearly one-half of the sales of existing homes. A just-released survey, *Who's Buying Homes in America*, by Chicago Title, found the same thing. Virtually everyone agrees that due to increasing incomes and lower interest rates, homes in most areas of the country have become relatively more affordable than they were throughout most of the 1980s and early 1990s. In fact, all things considered, the most recent Affordability Index calculated by the NAR shows home affordability at a near record high. Many renters who had been sitting on the sidelines have now gotten into the game.

DO YOU STILL FEEL LEFT OUT?

Unfortunately, though, far too many renters still aren't joining in. "Sure, in our area monthly mortgage payments are more affordable than they were a few years ago," report Joyce and Bill Hampton. "But there's still no way we can buy the home we want. We don't have enough for a down payment. Besides, we're not so sure owning makes economic sense anymore. We've seen magazine articles warn against buying. A lot of experts say renting is cheaper. Homes are not the sure-fire investments they once were."

Sam Sloan, age 49 and a long-time resident of Honolulu, has given up on buying in Hawaii. "We do not own a home here,

and both my wife and I work,” says Sam. “We have tried seriously to get the home we want and we can’t afford it. Could we buy a house? Absolutely. Could we buy a house we like? Absolutely not.”

Patty King, age 34, is an attorney who has lived in Seattle for the past eight years. Patty put off buying. She had believed she would be married by her mid-30s. Home buying would come after marriage. She now says, with regret, “I wish I had bought earlier. But I can’t really get excited about buying now. It’s a big psychological roadblock to know many of my friends bought their homes some years back at much lower prices. Even worse, interest rates aren’t as low as they were a year or two ago.”

Broderick Perkins, a newspaper columnist in the San Francisco Bay area, urged his readers to, “Give your home-buying budget *one last desperate squeeze—or wait until the next recession.*” But then he adds, “This advice comes from a savings-poor renter who is still years away from a down payment. If I could get into the market, I’d be at the front of the line.”

During the past two years, nearly 7.5 million Americans have been able to move up from renting to home ownership. But millions of other renters are holding back. Many believe they can’t afford to buy. Some believe they can’t afford to buy the home they really want. Some believe they missed their chance to own when prices were lower or when interest rates hit their 25-year low in the fall of 1993. Now they believe it’s too late. A large number believe that renting costs less than owning or that homes no longer stand out as a good investment.

With lingering concerns over affordability, the costs of renting versus owning, job security, and potential appreciation, it’s little wonder the U.S. Census Bureau recently reported that fewer Americans under age 45 now own their own homes. During the past 15 years, even as home buying has actually become easier, the percentage of home owning Americans age 35 to 44 has fallen from 72 percent to 66 percent. For Americans age 25 to 34, the percentage of those who own dropped from 52.3 to 42.9 percent. And for adults under age 25, homeowners account for just 15 percent of all households. These significant reductions are the first long-term drops in home ownership we’ve experienced since

the 1930s. Unfortunately, some experts believe these numbers could get worse.

Harold Quinley, of the international market research firm Yanklevich, Skelly, White, Clancey and Shulman, has found through his firm's work that many Americans in their 20s and early 30s "are convinced they may never own a home because they believe they grew up in harder economic times than those who came before them. They expect things will be tougher for them in the future." Even though these younger Americans still highly value home ownership, "many won't even try to own a home unless they are somehow persuaded the trade-offs are worth it. They feel no urgency to buy."

ARE YOU UNCERTAIN ABOUT OWNING?

If you're like many renters today, you may be fence sitting. On the one hand, you may realize that favorable home prices and lower interest rates have made home ownership easier than it was throughout the 1980s and early 1990s. On the other hand, you may believe you still can't afford to own, that ownership is not as good an investment as it used to be, or that our country's economic future makes home ownership too risky and uncertain.

If in some ways you can identify with these feelings, this book will help you decide whether now is the time for you to own. Moreover, if you're similar to the great majority of renters I've met in my real estate classes and *Stop Renting Now!*[™] seminars, I'm convinced that home ownership will prove possible, desirable, and profitable for you. The benefits of owning are worth the investment. In my experience, I have found large numbers of renters who regret not buying. In contrast, few homeowners ever regret their decision to own. And as history points the way to our future (as it always has), three or four years from now those renters who chose to continue renting will surely look back with regret on the opportunities they missed today.

Even more important than helping you decide to own, of course, this book shows you the many ways you can get into home ownership—even if you think you can't. You may not be able to start immediately with your ideal home. Few people do. But the best way to make progress toward this life goal is to get into some type of home ownership as quickly as possible.

Consider for a minute Sam Sloan, the long-term Hawaii resident quoted several pages back. He and his wife have rented all their adult lives because they believed they couldn't afford the home they wanted. But could they have afforded some type of home? As Sam said, "Absolutely."

Yet, after having rented in Hawaii for the past 20 years—during a period when median prices climbed from \$60,000 to \$300,000—are Sam and his wife any closer to their goal of owning the home they really want? Unfortunately, they are not. By failing to get started in home ownership years ago, Sam and his wife are now further from their ideal home. On the other hand, if in earlier years they had relaxed their requirements and bought an affordable home, today they would be much closer to their ideal. If there's any lesson the past has taught, it is this: Don't pass up home ownership today just because you can't yet afford your ideal home.

DON'T POSTPONE: YOU CAN OWN

When I began to offer Stop Renting Now!™ seminars, I was surprised at the age group of many who signed up. Often as many as one-half of the class were over age 40. (I had expected nearly everyone who attended would be in their mid-20s to early 30s.) As I talked with these older renters, I learned that, strictly speaking, "unaffordability" had not blocked their road to home ownership. Instead, their complaint was, "We could never afford the home we wanted."

One woman I clearly recall illustrates this point. I will call her Anne Lange. At the time I met her, Anne was age 44. She had lived in the San Francisco Bay area since graduating from the University of California—Berkeley more than 20 years earlier. "Why didn't you buy?" I asked Anne.

"I never saw anything I liked that I could afford," she replied. "After growing up in a four-bedroom, two-bath house with a floored attic, a finished basement, an upstairs and downstairs, and a half-acre lot, I could never adjust to the two-bedroom, one-bath cottage that was within my budget."

"But 20 years ago, those two-bedroom, one-bath cottages were selling for just \$30,000 to \$45,000. They're now selling for \$225,000," I said. "Had you bought after college, you would have

nearly 80 to 90 percent equity in the property. You could easily have traded up to something much better."

Anne lamented, "That's water over the dam. The question is how can I stop renting now?"

After I reviewed Anne's finances, one thing became obvious. Anne spent too much money for clothes, travel, her car, and eating out. I suggested to Anne that she change her spending habits. Through careful financial planning, Anne could find an extra \$300 to \$500 per month to invest in a home. Next, I told her that since she wanted to stay in the East Bay, she should consider Emeryville, a small city next to Berkeley just 15 minutes from downtown San Francisco. This city had a great first-time buyer program that offered modest home prices, very low down payments, and below-market interest rates. I was sure some changes in Anne's budget, when linked to Emeryville's first-time buyer program, could move Anne into home ownership.

Anne responded to my suggestion, "Emeryville! Who wants to live in Emeryville?" (As it turns out, quite a number of first-time home buyers in their 20s and early 30s. They know that a good way to get started in home ownership is to find an affordable community—so much the better if the community also makes special first-time buyer financing available.) Anne, though, still wanted to own in the Berkeley hills where many of her friends from college now lived. Try as I might, I couldn't persuade Anne to see that her best chance to get a home in the Berkeley hills was first to buy somewhere else more affordable. Continuing to *rent would push her goal further beyond reach.*

Having failed to persuade Anne to get started in home ownership in Emeryville or some other affordable community, I next suggested various affordability strategies such as shared equity, co-ownership, value creation, and other proven techniques. (These techniques are discussed in later chapters.) With the right affordability strategies and techniques, I believed Anne—like most other renters—could probably extend her range of affordability to the home she wanted. But Anne responded, "I don't want to get into any of those things. I don't understand them."

Anne saw her home buying problem as a problem of *affordability*. In truth, though, like Sam Sloan and his wife, as well as millions of other renters, Anne was really blocked from home ownership by two critical shortcomings: (1) her attitude and (2)

her *lack of education* concerning alternative ways to buy and finance a home.

In some ways, many of us are like Anne or Sam. We avoid committing to a plan because we resist options that we don't fully understand as well as those that don't fit our idealized self-image. But this lack of commitment leads to self-defeat. So please, don't needlessly give up on home ownership. Don't postpone buying because you "can't afford the home you really want." Even if you have looked at homes and believe they are priced out of reach, your real problem may be attitude and education—not unaffordability.

Regardless of the obstacles you think you face—down payment, monthly payments, credit record, job history, discrimination, you name it; regardless of whether you live in a high-priced area, or an area with low-to-moderate home prices—I'm sure there's a financial strategy or combination of strategies that can make ownership *possible* and *profitable* for you. Don't end up like Patty King, Anne Lange, Sam Sloan, or millions of other renters who now wish they had bought years ago. Don't hold back, like Broderick Perkins, because you think you need a pile of savings for a down payment. Don't let market realities defeat you. Meet them. Accept difficulties as a challenge to your imagination, creativity, and self-discipline. If you want to become a homeowner, don't simply hope for your ideal home. Don't wait for someday. Plan your progress toward home ownership now. Few things in life give more satisfaction than working toward and achieving a desired goal—especially the goal of owning your own home.

HOME PRICES ARE GOING UP

Once you have developed the attitude and education to buy, you still might question whether you should buy. Or perhaps you may question whether now really is the time to invest in a home.

Admittedly, buy now stands as one of the most frequently heard clichés in real estate. Yet within recent memory, we have seen home prices decline in the oil and gas states (Texas, Oklahoma, Colorado, and Louisiana). We've seen overbuilding depress home prices in Arizona and Florida. We've watched the raging bull markets of Southern California, Washington, D.C.,

New York City, and New England turn into corralled sheep. With these market experiences still vivid in our memories, it's no wonder many media experts have popularized the idea that renting costs less than owning, or "Buy a home if you want a place to live, but don't mistake it for a bank account with a white picket fence."

The facts, though, don't support these pessimistic conclusions. Although local markets will vary, on the whole we are about to see another round of appreciation in home prices. Portland, Oregon; Boise, Idaho; Seattle, Washington; Austin, Texas; and Denver, Colorado are just five recent examples of fast-appreciating markets that will be followed by other cities throughout the United States. Like most investments, home prices move in cycles—sometimes up, sometimes down. Unfortunately, most people incorrectly base their forecasts on whatever has happened recently. If home prices are galloping ahead at 10 to 15 percent a year, the predominant forecast will be for home prices to continue running at that pace. If home prices are declining, stable, or showing slow growth, most people will color the future bleak.

Yet a brief glimpse of history shows that home price trend lines don't extend from the past to the present as straight, smooth, and constant. They look more like the ragged peaks, plateaus, and valleys of a range of mountains. And mountain climbers always go through a series of ups and downs as they steadily move to higher and higher levels. The same is generally true for home prices.

Over time, home prices have always risen to higher levels, even though at any given time, price levels will depend on the peaks, valleys, and plateaus of supply and demand. So to reasonably forecast where home prices are going requires us to map out the future path of supply and demand—not simply to project the present into the future. What does this map show? Growing demand and constricted supply.

DEMAND FOR HOME OWNERSHIP IS UP

Population and incomes in the United States are increasing. More than one million immigrants a year are moving to the United States. Looking back over the past 20 years, interest rates are still