

Results Advisors Presents: Buying a House in Today's Market -What a Buyer Needs to Know

This is a free report from **Results Advisors, Inc.** to our friends who are interested in buying a house in the United States between 2012 and about 2015. Buying during this time period may be a good idea, because you have an interesting combination of events which will occur during this timeframe:

- The big banks have several million houses nationwide they took back during the foreclosure crisis. These properties will need to be disposed of, since the big banks are in the money business, not the real estate business.
- Bank of America tipped the hand of the big banks in early March 2011; the big banks want their inventory gone in three years – by 2014¹.
- Wells Fargo tipped the hand of the big banks in late February; they told us how the banks are preparing to get rid of the inventory – by lowering the FICO requirements of FHA loans from 620 to 500, yes 500, assuming you can come up with a down payment.²
- The Big Bank's Washington office, called the Federal Reserve, tipped the hand of the big banks by telling their concubines in Congress that interest rates need to be kept low for the next few years by demanding “qualitative easing 3” and the concubines were happy to comply.³

What does this mean to you? You will have the next few years to buy a discounted property at a low interest rate. That's a great thing, as long as you understand that if you buy early in the cycle, like the next 12-24 months, your home will go down in value. You must need to ride this out. House Flippers need not apply.

In this free report, **Results Advisors** will show you the types of inventory available, what to look for, what to expect in the negotiation process, and how to prepare for your home purchase. This report is free to you; feel free to pass it

¹ Bank of America plans to split bad loans into a bad bank. Businesswire, March 8, 2011

² Wells Fargo release, February 27, 2011

³ The Face of Qualitative Easing, Minyanville.com, December 7, 2010.

around to your friends who are interested in buying, and for updates visit us at www.resultsadvisors.com

1. The Types of Inventory Available:

Since your realtor may or may not take the time to explain this to you, let's take a minute to discuss the types of inventory you will see over the next few years. There are essentially three types:

- Organic sales – these are sellers who are selling their houses the way your mom and dad would. They are not under the gun, they are not really paying attention to the market, and they are relying on their realtor for pricing. These sales will normally have the least things wrong with them and have motivated sellers. The downside is there are not a lot of these sales.
- Real Estate Owned – these are properties which have been foreclosed on and returned to the bank for disposition. Some banks will take the time to fix them up before they sell them; due to the numbers in the years ahead this will be less and less likely. There will be things wrong with these houses; you must accept that fact going in. The hassle factor of dealing with the banks⁴ is high, but at the end of the day these sales can get done.
- Short Sales – these are properties which are at various stages of the foreclosure process. The homeowners have fallen behind on their payments and are in a race against time to get out before the bank forecloses. There will be problems with these houses; accept that fact going in. These sales also have the highest hassle factor of the three. Unfortunately, this is where most of the best choices and selections are going to be.

2. Preparing for the Purchase:

Since the Government has taken over the lending industry, your home loan will have certain requirements, depending upon the loan program you are using. These requirements are cookie cutter and rigidly enforced; if the loan program

⁴ Imagine a combination of the efficiency of the DMV with the attitude of the Post Office. Patience and an open bar tab are requirements here.

requires a 620 FICO score and you have a 619 score, you don't get in. Certain papers and documents will be required; here's the list and why.

- A 1003 application – this is the standard home loan application. Your real estate agent or mortgage broker will give you a copy. Please take the time to fill it out in advance so you can see what you will be asked.
- Two years tax returns; the whole return. Not just the W-2 and 1099 like the loan officer tells you. The underwriter will eventually demand the entire return⁵, so just make copies now.
- Two months of financial statements. If a bank account, retirement account, secret Swiss Bank account, etc. can be connected to you, make copies of two months worth of statements. Keep current copies ready to go. You will be asked for these at least twice in the process.⁶
- A written statement, under penalty of perjury⁷, telling where you got your down payment money. We live in post 9-11 America and you are presumed by your government to be a terrorist or money launderer. Be prepared to state where you got the down payment money and to back it up.
- Understand the problem with down payments. If the down payment money is not something you have scrimped and saved for, you will need to document where it came from – a friend, relative, your proceeds of a drug sale, whatever, but have documents showing it. If the money is a gift, it will need to season (sit in your bank account) six months to a year before it can be used. Either save it yourself or ask long in advance.

Take the time now to download and fill out the 1003 application. Now, to get ready for the Ironman Triathlon that is the loan application process, assemble in a folder a piece of paper – bank statement, credit card bill, auto loan bill, napkin scribble, etc., *that justifies every single number on that sheet*. Put all that aside; you will need it later on. Trust us.

⁵ Usually the day before the loan is set to fund and escrow closes. Understand this clearly: the bank's goal is to deny your loan – the money has a higher rate of return in the Wall Street Casino. But since their prison bitches in Washington will complain if they don't loan money once in a while, sometimes the banks break down and fund a loan. Don't take this personally, they do this to everybody; just make sure they break down and give it to *you*.

⁶ See above; getting a loan is a war of attrition; the more people that go away the more money the banks have to spend at the casino. As Winston Churchill famously said "Never give up. Never, ever give up."

⁷ Simply end the statement with "I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct" sign it and date it. At first, this will shock your loan officer; later in the process he or she will kiss you for doing this; just watch.

3. You Will Need a Down payment

It is not 2004 anymore and you can't get NINJA⁸ loans anymore. You will need a down payment. Pay no attention to anyone who tells you otherwise. Right now, the minimum down payment to qualify for a government loan is 3%. While this is can be done, that's the loan which will have the highest FICO score requirement. If you're FICO score is not at least 660; you won't qualify for this loan.

You should be able to put down at least 5%, or better yet, 10% of the purchase price. If your dream home will cost more than \$729,500⁹ you will need to put 20% down. For a \$200,000 home, your down payment available should be \$10,000 to \$20,000. At this level, you will get a lower interest rate and can qualify with a lower FICO score.

In addition to the down payment, you will also need some reserve cash. As we told you at the beginning of this report, you will most likely be buying a house with something wrong with it. These things will need repair money, so have some in the bank. Also, the banks will demand 2 or 3 months of income over and above your down payment in the bank so make their job easier and keep saving money.

4. Houses and Situations to Avoid

Home buying is very much a "to each his own" proposition with lots of variables depending upon family situations. From hard experience we don't want you to repeat, we have found the following guidelines helpful in house selection:

- Single family residences of 2-4 bedrooms and 1-2 bathrooms are best. Larger houses will be more difficult to sell.
- The house is 1000-1600 square feet in size– larger than that heating, cooling and maintenance will become an issue.

⁸ "No Income, No Job, No Assets" loans – these were very common in the bubble years.

⁹ The current limit on government loan programs. Above this amount, you have to get the money from private sources. At that point, double the hassle factor and paperwork requirements.

- The house is either of brick or wood frame construction. That should be obvious to you. Avoid concrete block construction. It looks ugly regardless of what you do to it.
- The house has a “normal” architectural layout – no domes, no prototypes, nothing from a slasher movie set.
- The house has some kind of yard – either front or back, so kids can play.
- The house has a normal “traffic flow” pattern – you don’t need to walk through one bedroom to get to another, for example.
- The house is located within an hour’s drive time of a major metropolitan area where the jobs are.
- They are single story, not including the basement. If they are multi-story, at least one bedroom and a bathroom are located on the ground floor. You never know when Grandma will be moving in.

What we are NOT looking for is this:

- Duplexes, triplexes, etc. These create management problems if you keep them, and the buying market is sharply limited. This will become increasingly true as the credit market continues to implode.
- Condominiums, townhouses, or any other dwelling attached to its neighbor on either side or up and down. In some cities, the only properties available will be row houses, which will have common walls. That’s acceptable, but Expect the occasional neighbor hassle.
- Properties on busy streets. If the street the house faces has more than two lanes, getting home in busy traffic is a problem that gets old in a hurry.
- Properties located near strip malls, gas stations, or other retail establishments. You don’t want AM/PM’s floodlights in your bedroom window at 3:00 am.

- Properties that are in the middle of a retail or commercial area. Most likely, the zoning has changed and the house is grandfathered in. Good luck getting it financed.
- Properties in area in which you are afraid to get out of the car to look at it. If you are afraid, so are the potential buyers.
- Properties that are “racked”. The exterior walls should be perpendicular, or nearly so, to the ground. If they are not, either the foundation is giving way, or the internal structure of the house is undersized, or both. When that occurs, especially in older houses, gravity wins. These are very expensive to repair and the repair costs are a sunk cost.
- Properties that a prior rehabber started and then gave up or properties with un-permitted additions. These are called “glop-ons” because the addition looks like it was glopped on to the house. You will know it when you see it. Most of the time, the city will require that fine piece of handy work to be removed when the permits are pulled, and who knows how many corners were cut in the rehab process.
- Real special inside deals only the realtor knows about. The realtor knows about them because there are problems with the property, like the local motorcycle gang uses it as a meth lab. Good luck getting the meth lab crew out.
- Properties that have been used as meth labs. These have to be taken back to the studs to get the hazardous chemicals out, and the slab sealed¹⁰. Not a happy day.
- Properties that just don’t look right or feel right, but you can’t quite tell why. In my house hunting, I have been to two houses where the hairs on the back of my neck stood up as I walked up to it. Trust your gut.

5. Do Your Homework

Sit down with a realtor, or better yet, a loan officer who know what they are doing and figure out in advance what you can actually afford given the money

¹⁰ The chemicals used seep into porous surfaces like wood or wallboard, all of which needs to be removed and disposed of as toxic waste. Very expensive.

available and your income. That will give you a price range to look. After that, let your fingers do the walking. Most of the inventory you actually want to see is listed on various sites, such as Redfin, Zillow, Realtor.com and MRMLS.com. The original house hunt is where you want Google to do the heavy lifting.

Look at prices in the areas you want and start to watch trends. After you have done this for a few weeks, you will begin to know the prices per square foot in the area pretty closely.¹¹ Houses are priced per square foot; which is easy to calculate: square footage of the home divided by listing price. An example: List Price: \$200,000 Square Footage: 1500 > $\$200,000/1500 = \133 per square foot.

While you are doing your homework, jot down the addresses of the properties you want to look at and then bring up Google Earth. Nearly every speck of the urban United States has been photographed by satellite¹² and Google has collected the imagery. These will show if the property is just down the street from the sewage treatment plant; railroad marshalling yard¹³ or cattle feed lot. That wee bit of information won't show up on the realtor listing, buy you eye in the sky will find it.

Once you have done your homework, actually go out and look at the properties with your realtor. Bring along a digital camera or your cell phone; after about three properties they all start to blend together. Walk around the neighborhood while you are there – cars on cinder blocks? Strange smells? Breakfast being cooked at 11:00 am? Use your senses and see if you fit in to what you seek.

6. Making the Offer

¹¹ When the writer was house hunting in southern California, his commander was fixated on a three-city area. After about 3 months of hunting and looking, the writer and his commander could estimate, within a *few hundred dollars*, what the house would sell for, regardless of the asking price. Just practice.

¹² The better to pick out your ballistic missile targets, my dear.

¹³ Giant places with many tracks where trains are assembled and sent on their way; used to live by one. Very loud 24/7; don't make that mistake.

If it's a nice property, make a written offer. Don't waste everyone's time on the nice properties – there are lots of offers. Make your “highest and best” up front; and use your down payment amount as the sweetener. The REO agents have been around the block and will recognize a deal likely to fund, and yours moves up the pile. So will the short sale agent or the short sale negotiator. There's no point in this market to “lowball” your number. There are lots of buyers in the same boat you are. Throw out the best number you can live with and see what happens.

7. The Offer is Accepted

If it is an organic sale, expect the process to take 45-60 days. You will be asked for a wide variety of additional documents as the realtor, underwriter and loan officer meet what are called “contingencies” put out by the lender.¹⁴ You can't predict these in advance as they vary from loan to loan and underwriter to underwriter, but expect to be asked for some or all of the following:

- Social Security Cards
- Proof of Marriage and Proof of Citizenship
- 5 years tax returns
- Credit Card and auto loan statements.

Now the waiting begins. Expect that during the wait, you will get a frantic call from the realtor demanding some obscure document the “bank has to have today”. That's why you have assembled all the documents in advance – so you can fax or email what's needed within the time frame demanded.¹⁵

Eventually, after you wear the lender and seller down, and they realize you have done your homework and are ready for them, the sale will close, you will be given the keys, and you can move in. CONGRADULATIONS

8. Special Rules for Short Sale Buyers and REO Buyers

¹⁴ These are specific nitpicky things needed to make the loan fund. They make perfect sense to a cubicle worker living in his mother's basement in Sioux Falls, but aggravate everyone else involved.

¹⁵ The bank may have decided they need this document a few days before they demand it and then tell you at the last minute. Again, this is a war of attrition so they can keep their money. Be prepared and ready for it.

There is absolutely nothing normal in this process. It will take a long time. You will be asked for things over and over again. It will be a miserable experience. You will grow to question the bank's sanity¹⁶ you will question your realtor's sanity. You will question your own sanity. Welcome to the process! Here are some rules to keep your bar tab lower:

- Don't fall in love with the property. If it is an REO, there is a real issue as to who actually owns the thing and can negotiate the sale. Google "robosigner" and prepare to be shocked. If it's a short sale, the odds are it will go to foreclosure and be lost. If that's the case, all bets are off and all the work done is for nothing; *it's gone*.
- In a short sale, you the buyer are a bit player. This process has nothing to do with you; it's a fight between banks over who will get stuck with the loss. Making you happy is not important. Closing the transaction in a reasonable time is not important. You are not even a consideration in the fight.
- The seller is not happy about the sale. They bought at the peak of the market with crappy financing "because real estate always goes up" or are in a financial crisis because they lost their jobs, or both. They want nothing to do with you and just want out to start their lives over. Nothing personal.
- This manifests itself with the lack of maintenance on the home. Things stop getting done. Be ready for lots of yard work, painting, removing trash and garbage and abandoned property.
- You will be asked for paperwork over and over. Make multiple copies or better yet, scan all of the documents into a thumb drive you can carry with you and email at a moment's notice.
- Be Patient

¹⁶ They don't have sanity. They have greed.

- Understand that in most cases **YOU ARE GETTING A GOOD DEAL** and be satisfied with that.

Feel free to give copies of this to your friends, clients or fellow agents.