



Dave Ramsey's

# **HOMEBUYER** **GUIDE**





## *Dave's Homebuyer Guide*

Dave got his start as a real estate agent, helping people make their home-buying dreams come true. It's still one of his favorite topics. Today, he focuses on helping people become homeowners at the right time and in the right way—making sure their home is a blessing, not a curse.

We've gathered some of Dave's best advice about buying a home into this guide. You'll learn how to get your home sold quickly with great staging tips and how to recognize a neighborhood with potential.

Whether you're looking for your new home right now or home buying is part of your future, this guide will help you make the process as simple as possible.





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# DON'T BOTHER LOOKING FOR A NEW HOME UNTIL YOU DO THIS



If you're not paying cash for your home, it's best to be pre-approved for a mortgage before you start looking at new homes.

**D**ave doesn't borrow money. Not even to buy a home. But he realizes that paying for a home in cash isn't always an option. So he's okay with folks getting a mortgage that's well within their means.

The first step to getting a mortgage is pre-approval. The lender checks your credit score, verifies your income and employment, reviews your bank and tax statements, and investigates your assets to make sure you meet their requirements.

Following the Baby Steps will make pre-approval simple. You'll be debt-free and have an emergency fund of 3–6 months of expenses. You'll also have a down payment of at least 10%, but these days, some lenders require more.

Remember, you don't have to (and probably shouldn't) borrow the full loan amount you're pre-approved for. Instead, stay conservative and look for homes in a price range that will keep your mortgage payments to about 25% or less of your take-home pay for a 15-year note.

Once you make an offer on a home, you'll apply for final approval. This takes about 30 days and normally includes an appraisal of the home.

## SPECIAL CASES

If you've been living debt free for a while, your credit score will eventually drop to zero and become what's called "indeterminable." That can cause a problem with lenders who rely on your FICO score for loan approval.

In that case, you'll need to see a lender who does manual underwriting. These mortgage lenders actually take the time to see who you are, what you do, what your current financial position is and more.

To qualify for manual underwriting, your old credit history must be in good shape. Even if you have a zero score, the old history is still there and impacts the loan decision. **H**





# HELPFUL HOME-BUYING TERMS



Here's a short list of mortgage terms you'll want to know as you continue your home-buying adventure:

**Appraised value** – An opinion of a property's value provided by a trained appraiser.

**Clear title** – A home with a clear title has no liens (outstanding debt) or legal questions about its ownership.

**Closing costs** – Fees paid when ownership of a property passes from the seller to the buyer. These include real estate agent commission, legal fees and recording fees, property taxes and homeowner's insurance. The lender must provide the borrower a Good Faith Estimate: a written, itemized total of the expected closing costs.

**LTV** – The loan-to-value ratio is the percentage relationship between the amount of a loan and the value of the home. To determine LTV, divide the amount of the loan by the home's value or purchase price.

**PITI** – This stands for principal, interest, taxes and insurance—the components of a monthly mortgage payment.



# HOW THE 30-YEAR MORTGAGE ROBS YOUR FUTURE



Could your 30-year mortgage cost you the chance to become a millionaire?

## 15 vs. 30 YEAR MORTGAGE

Loan Amount = \$225,000  
Interest Rate = 4.5%

**\$309,000**  
15 year

**\$410,000**  
30 year

**A**s we mentioned before, Dave is a fan of the 100%-down plan—pay cash for your home. As crazy as that may sound, millions of people sign up for even crazier deals—like a 30-year mortgage.

### AN OPTION WE CAN DO WITHOUT

The 30-year mortgage was designed to enable borrowers to buy more house than they could afford by spreading the payments out over a longer term. On top of that, those homeowners pay tens—even hundreds of thousands of dollars more in interest.

That's why Dave never recommends 30-year mortgages. If you don't pay cash for your home, get a 15-year mortgage with at least a 10% down payment and monthly payments that are no more than 25% of your take-home pay.

### THE 30-YEAR EXCUSE

If you're telling yourself, *I'll get a 30-year mortgage but pay it like a 15-year mortgage. That way, if an emergency comes up, I'll have a cushion*, you don't know yourself very well. Finances are 80% behavior, and for most folks, their usual behavior doesn't include paying more than they have to even if they know it would make things better for them in the long run. So in the real world, you'll pay a 30-year mortgage like a 30-year mortgage.

A 15-year mortgage gives you built-in accountability. Your emergency fund of 3–6 months of expenses is all the cushion you'll need.

### YOUR “STOLEN” OPPORTUNITY

The difference between a 15- and 30-year mortgage with a 4.5% interest rate on a \$225,000 home is \$101,000 over the life of the loan. What could you do with \$101,000? Pay for your kids' college? Buy a car? Add to your retirement?

What if you invested that \$101,000? Invested as a lump sum, it would grow to one million dollars in 20 years. You'd have \$3.6 million in 30 years. On the other hand, what if you invested your house payment for 16 years after you paid off your 15-year mortgage? You'd have a million bucks. Ten years later, you'd have \$3.7 million.

Are you ready to give up the opportunity to be a millionaire just to buy a home you can't really afford in the first place? Didn't think so.

That's why you have to shop for homes with your head—not just your heart. Too many homeowners fall in love with a home they just *have* to have, no matter the cost. But if you know buying that home could cost you the chance to be a millionaire, it's much less attractive. **H**





# THREE ESSENTIAL TOOLS FOR GETTING GREAT REAL ESTATE DEALS

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A buyer's agent has the knowledge, skills and experience to get you a great deal on your next home. Don't house-hunt without one.



Which real estate agent in your city does Dave recommend?

**Y**ou may already be feeling overwhelmed by the home-buying process at this point. But figuring out how you'll pay for your home isn't even the most complex part! That's why you'll want to work with a top-notch buyer's agent, an agent who will show you properties and help negotiate your purchase contract.

Buyers who use a buyer's agent pay an average of 5% less than buyers who don't, a difference of \$7,500 on a \$150,000 house. That's because a good real estate agent has three tools the average homebuyer doesn't—tools that result in a better deal for you.

## INFORMATION

It's true that all the specifics of any home for sale anywhere in the country are available online. But a home's online profile won't reveal how many other homes in the neighborhood are currently for sale, how many are in foreclosure, whether that neighborhood is growing or declining, or any number of factors that would influence the home's value—maybe even your decision to buy it.

A good real estate agent makes it her business to know all those things before she shows you a home. That way, you don't waste time looking at homes that aren't right for you, and you don't waste money paying more for a home than you should.

## NEGOTIATING SKILLS

You can't and shouldn't depend on the selling agent to work for your best interest when you're negotiating the price of a home. They work for the *seller*. You need an agent with the same skills and knowledge working for you.

As we pointed out above, you're likely to pay *more* for your home if you try to negotiate your home purchase yourself. And, in most cases, a buyer doesn't pay extra for his agent's services, because the buyer's agent splits the commission with the seller's agent.

You're getting expert advice at no additional cost!

## EXPERIENCE

How many homes did you buy or sell last year? How many life-changing contracts did you negotiate? Do you know everything there is to know about title insurance? What about home inspections? Appraisals? Property lines? Disclosures required by state law?

High-powered, experienced real estate agents deal with these questions every day—and they know the answers, or they know how to get the answers. Don't fumble your way through these home-buying hurdles.

Dave always recommends you consult an expert for important financial commitments like buying a home. Even Dave, who's been an extremely successful real estate agent himself, depends on his real estate agent too. **H**





# IF YOU ALREADY OWN A HOME...

**T** Most home sellers don't need to make expensive improvements to get their homes sold.

**I**f you already own a home, you've got to get it sold before you buy the next one. You can speed things up by making a few simple, inexpensive changes that will make your home more inviting to buyers.

Any good real estate agent will recommend you clean and declutter your home before it goes on the market. But, home staging, which takes sprucing up a few steps further, can really set your home apart from the competition—adding value and shortening your home's time on the market.

## DOES IT MAKE A DIFFERENCE?

Joanne Curtin, real estate Endorsed Local Provider in the Atlanta area, says the houses on the market today have to win on two fronts—the price war and the beauty pageant.

“Because 80% of what causes a property to sell is the way it is priced and how it appears to the buyer, price will get you showings, but staging will get you offers,” she said.

The goal of home staging is to highlight your home's positive features while downplaying its problem areas. It starts with cleaning and decluttering and often includes painting, rearranging furniture, or even replacing furniture and accessories.

## SET THE STAGE

You can hire a professional stager, but you can do a lot of the work yourself with these tips from Joanne and the stager she works with:

**Paint** – “Everyone knows that neutral colors are more attractive to potential

homebuyers, but many sellers make the mistake of painting their homes the same shade of vanilla. A variety of colors in an earth-toned palette will give your home memorable warmth and charm,” Joanne said. Stick with colors you see in nature such as gray, beige, sage, soft yellow and spa blue.

**Furniture arrangement** – Instead of arranging your furniture against the walls of the room, add visual square footage by first removing one or two pieces of furniture and pulling the rest away from the walls.

**Fresh bedding** – Make your bed an inviting focal point with an updated bedding set layered with neutral pillow shams, throws or an extra comforter folded at the foot of the bed. Choose simple patterns or play it safe with a crisp, white duvet and color-coordinated throw pillows.

**Rooms with purpose** – Stage each room for one purpose. You might use your dining room as a home office or playroom, but buyers will respond better to the space if you stage it with a dining table, chairs and chandelier. Even nooks and crannies are valuable square footage, so play them up. An odd alcove at the top of the stairs becomes a cozy reading corner with the addition of an armchair, ottoman, side table and lamp. **H**



# TIPS FOR CHOOSING THE PERFECT NEIGHBORHOOD



Buy a home at the bottom of the price range in the best neighborhood you can afford.



Which real estate agent in your city does Dave recommend?

**N**ow that you've got an experienced real estate pro on your side, and you've figured out how to pay for your home, you're finally ready to start house hunting!

Remember the old real estate joke about location, location, location? It's no laughing matter. A good location impacts the future value of your home, and a great neighborhood can turn a nice house into a special family home.

So, what's a good location? Generally, a neighborhood *you* would like to live in is probably a neighborhood lots of people would like to live in. That goes for the young twentysomething buying a condo in a swanky part of the city as well as the family of four looking for a safe, suburban two-story with good schools and a big backyard.

Personal preferences aside, swanky urban areas and family neighborhoods share some common traits that make them good places to buy. Here are some things to look for:

**Easy access** – Most people don't want to spend a lot of time driving to get to work, school or shopping centers. You don't have to live right next door to a business center, but it should be easy to get from your house to these places. Other pluses include libraries, parks and public transportation.

**Good public schools** – This is important for families shopping for a home. Most states provide important test-score information online, so take the time to research schools in the area where you want to buy.

**Solid reputation** – A neighborhood's reputation is based on several factors—everything from a low crime rate to how well the residents maintain their homes. You can research crime rates online, and a drive through the neighborhood will reveal how your potential neighbors care for their homes.

**Future growth** – You want to buy in an area that will be attractive to buyers years down the road. If new homes are being built in the area, that's a good sign that growth will continue. But be careful. You don't want the area to develop into a business district with your home in the middle. **H**





# THE ABCs OF HOAs

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If you're considering a home in a community governed by a homeowners association, make sure you understand the HOA's rules, regulations and fees before you agree to a purchase or lease.

**I**f you're looking to buy a condominium, you'll need to look for signs of a healthy, growing neighborhood within the condo development. On top of that, you'll have additional questions to ask about the development's homeowners association, or HOA.

HOAs enforce community rules and collect monthly or annual dues. Some people object to the restrictions an HOA places on their property, while others appreciate the services it provides.

## PROS AND CONS

Since an HOA can add hundreds or even thousands of dollars (in the case of high-end gated communities) to the cost of renting or buying a home or condo, take the time to weigh the pros and cons before you buy or sign a lease.

**Pro:** An HOA will improve property values by regulating the outer appearance of homes in the community. This can mean requiring lawns be cut at a certain height, garage doors be kept closed, and allowing only certain colors or types of materials on the homes or outbuildings.

**Con:** A lot of people, especially homeowners, don't want to ask permission to paint their homes or have plans for improvements rejected by the HOA. Residents may feel like "Big Brother" is watching to make sure the lawn is landscaped correctly or the shutters comply with the HOA color scheme.

**Pro:** HOA fees pay for upkeep of the community's common areas such as a pool, playground or workout facility. The HOA may also provide services such as snow removal and landscaping.

**Con:** The fees are an added expense and can go up from year to year. If you don't pay on time, the HOA can put a lien on your home or even force a foreclosure.

**Pro:** HOAs can be called on to resolve conflicts between residents. The goal is to avoid negative feelings between neighbors since the HOA makes the final decision. HOAs also host neighborhood block parties or family nights to encourage a sense of community between neighbors.

**Con:** HOA boards are usually made up of volunteers who may not have a lot of time to spend overseeing HOA matters, sometimes leading to poor management and leaving residents feeling their HOA fees are wasted. In some cases, the HOA may hire a management company. Some residents object to this because it looks like decisions are made by a company with no personal ties to the community instead of by fellow residents.

## BEFORE YOU SIGN

If you're thinking about buying or renting a home with an HOA, ask for a copy of the rules, regulations or bylaws before you commit to the purchase or lease. You should also take a look at the budget and financial records to see how often and how much the fees have increased in the past. **H**





# THE RIGHT WAY TO MAKE AN OFFER ON A HOME



Making an offer on a house is complicated and legally binding.



Which real estate agent in your city does Dave recommend?

**Y**ou'll rely on your real estate agent a lot during the home-buying process, but this is where working with a pro will really pay off. Making an offer on a home and negotiating the purchase contract the right way can save you thousands of dollars.

## STEP 1 - GET THE PRICE RIGHT

It's a classic misconception that you can save money on an agent's commission by handling the offer on your own. But a good agent's knowledge and experience can actually save you *thousands* on a home purchase.

For example, your agent can provide you a comparative market analysis on listing prices and sales prices for homes in the neighborhood where you're planning to purchase. If, for example, homes are selling for 5% less than their listing price, you can reasonably offer 8–10% less than the listing price, leaving yourself room to negotiate.

Be sure, however, to listen to your agent's advice. If the market is slow, you could offer less, or, if it's a seller's market, you could be quickly outbid.

When you've settled on a price, you'll make your offer using a standard purchase agreement that complies with the laws of your state. The agreement will include the property's address and the price you're offering, any state-required information, and details about who will pay for title insurance and inspections.

Your offer is a legally binding contract—another good reason to work with a pro. A mistake in this document can cost you big.

## STEP 2 - NEGOTIATION

The seller can accept your offer as is, but that rarely happens. Sellers usually counteroffer by changing or adding to the terms of your offer. Your agent will help you understand how the counteroffer affects you, and, if necessary, develop a counteroffer of your own.

You'll be in a strong position to negotiate if you:

- Are a cash buyer.
- Are pre-approved (not pre-qualified) for a mortgage.
- Don't have a house that must be sold before you buy.

Until both sides sign the agreement, either can reject the offer, ending all negotiations. **H**





# NEVER SKIP THE HOME INSPECTION



No matter how good the deal sounds, don't agree to skip the home inspection.



**W**hen you make an offer on a home, it's standard procedure to make that offer contingent on the results of a home inspection. So what happens if the homeowner counteroffers and says he'll give you the home at the price you asked for—but no home inspection. Is this ever a good idea?

"No way," said Larry Aridas, real estate Endorsed Local Provider. "If the homeowner isn't willing to do a home inspection, they're hiding something. I'll advise my client to walk away every time."

Getting a home inspection doesn't mean the homeowner has to fix the problems it uncovers, Larry explained. It is simply a tool the buyer can use to determine if the home is worth what he's agreed to pay for it. You have to assume that a seller who won't allow an inspection knows there's something wrong with the house that will convince you not to buy it.

In a few *rare* circumstances, Larry says it could be okay to proceed with a contract to buy a home without the home inspection contingency.

"If you're able to buy the home for at least 40% less than market value, and you've done a thorough walk-through, then that would be an example of when you could accept a home without an inspection," he said.

Also, banks usually don't allow inspection contingencies in contracts for properties they own. But Larry has a way around that for his clients.

"Most of the time, a bank will take a few days to return a signed purchase contract," Larry said. "I advise my clients to go ahead and schedule an inspection during that time."

If the inspection turns up significant problems, the buyer simply doesn't sign the contract. This way, the buyer is protected, even though he had to pay for the inspection. **H**



# CONCLUSION

**E**veryone's home-buying experience is unique. There's no way we can tell you exactly how to handle the issues you'll face, but we know some folks who can. Dave's real estate Endorsed Local Providers (ELPs) can help you in the situations we mentioned in this guide as well as in any other situation that may come up when you buy or sell your home.

## GET EXPERT ADVICE

Your ELP is an expert in your local market and will give you the same great advice Dave would.

[Find your real estate ELP today!](#)



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