

Rudy Perkins

8 Secrets For Saving Thousands When Finding, Buying and Financing Your Next Home

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*Here's A Helpful Guide For Buying The
Right Home, At The Right Price, And
Getting The Right Financing...*

“You Don’t Make Money When You Sell Real Estate, You Make Money When You BUY It!”

Dear Home Buyer,

Do you see the statement above? Someone once told me it was written backwards...that you only make money when you SELL real estate. “*How on earth could you make money when you buy it?*” he said.

But that statement *is* accurate. You might receive your sales proceeds when you sell your home, but it’s how well you BOUGHT your home that will determine HOW MUCH your proceeds will be.

But the story doesn’t end there. Finding the right home, and making a prudent financial investment is more involved than just “buying right.” You also need to FINANCE it right.

Even Experienced Homeowners Make Costly Mistakes When Buying And Financing Their Home

Hi, my name is **Rudy Perkins**, and I specialize in helping people buy the right home at the right price...AND right financing.

It’s no surprise that borrowing \$100,000...\$200,000 or more is a lot of money. And how to FIND the right home...how much to PAY for the home...how much to BORROW...and on what FINANCIAL TERMS can literally mean tens of thousands of dollars MORE or LESS in your pocket!

If you’re like most people, the decision to buy a home involves a number of stresses and strains. For about 80% of buyers, it’s the single largest financial transaction of their lives. Mistakes in any part of the buying process can cost you thousands.

That’s why I wrote this special report...to give you a number of helpful, straightforward tips for finding a home that meets your needs, AND becomes a wise financial investment for you.

Here are eight strategies (I call them “secrets” because so many home buyers disregard them when buying) you should consider when buying your next home...

Secret #1: Understand What You NEED In Your Next Home.

Two things you need to consider here: Your NEEDS...and your WANTS. They’re two very different things.

You may need four bedrooms because of your children, or need a 3-car garage because of your three cars.

What you'll find is your needs are fairly basic. It's the "wants" that take a little more time to clarify. Here is a list of needs you should consider *before* looking for your home:

1. **General price range of home.** We'll cover this ahead when discussing financing options and the amount of home you can afford.
2. **Approximate size of home (in sq. footage).** Make it a reasonable range.
3. **General location, area, or subdivision.**
4. **Number of bedrooms required.** Don't forget to include any home offices or guest rooms.
5. **Number of bathrooms you need.** Frequently determined by the number of children you have.
6. **Style and layout of home.** Do you want a more formal plan, or a contemporary plan with great room designs, etc.
7. **School requirements or districts.**

Secret #2: Understand What You WANT In Your Next Home.

A great way to get a handle on your wants is to take a good look at your present home. What do you like about it? Do you like its open floor plan? Do you like the kitchen and eating areas? Do you like the common area layout?

List out everything you like about your present home, or homes you've visited.

Now, let's take a look at what you don't like about your home. Do you hate the flat roof? Do you hate the master bedroom layout? Are the bedrooms too small? Is the kitchen too far from the garage?

If you dislike something with your present home, you're going to dislike it with your new home. So the better you can identify these items, the more likely you are to avoid them.

Here's a good suggestion: Take out a piece of paper and draw a vertical line down the middle. In the left column, write down everything you like about your present home. In the right column, write down everything you dislike about your present home. It's also important you understand **WHY** you dislike something.

Now, from your list of "likes," let's compile a list of features you want for your new home. Here's an important tip that will help you really narrow your focus.

Take out another sheet of paper and put two columns on it. On the left hand side, you will be listing out the **features** of your home. And on the right hand side, you'll be listing out the **benefits**. For each feature, you want to list the benefit of that feature.

Features tell you what something **IS**: three bedroom, two bath, 3-car garage, etc. Benefits tell you what something **DOES**. Benefits fulfill desires.

For example, a great room concept (feature) will be ideal for entertaining friends and family at special times (benefit). So on the left hand side, you would put “great room.” And on the right hand side, list out all the benefits (or reasons) for the “great room” design: family entertaining, business entertaining, Thanksgiving holidays with the family, etc.

Understand What Each Other Is Looking For, And WHY

If you’re a husband and wife looking for a home, this exercise will eliminate many disagreements down the road. You will both understand what the other wants, and WHY they want it.

I recommend you RANK each feature in terms of its importance to you and your spouse. You’re both going to live in the home, so you better understand what the other is looking for.

For example, a well designed gourmet kitchen (remember, list ALL the features of the kitchen you’re looking for) may rank high with a woman, while having a workshop may rank high with a man. Try to understand each other’s priorities.

Most People Have More Dreams Than Money

Ranking will also show you areas you may need to eliminate because of price constraints.

And by having each person rank the importance of the features they want, you won’t be eliminating a high priority item and putting additional stress on an already stressful time.

Secret #3: Understand How Much Home You Can Afford.

Like it or not, there are two guidelines bankers and mortgage lenders use to determine how much loan you can afford.

The first guideline is the *Payment To Income Ratio*. This guideline compares your income, or your total household income, to the amount of mortgage payment you’re considering.

To calculate the “payment” part of the formula, the lender will take the mortgage payment (principal + interest) and add to it property taxes and insurance. Hence the term “PITI” (principal, interest, taxes, and insurance).

Usually lenders will loan up to a payment amount of **28%** of your total household income.

But before you think you’re home free, there’s something else you need to know...

It's called the *Debt To Income Ratio*. Debt refers to ALL the major monthly payments other than your mortgage payment (PITI). To arrive at this amount, the lender will consider...

- Your car payment.
- Your credit card debt and payment.
- Any IRS liens or payments due.
- Any other payments and debts you have (boat, second home, etc.)

Then, they'll compare your total debt to your ability to make current payments with your new home loan added into the equation.

Now, here's the "stickler." Each mortgage company sets different limits on your *Debt To Income* ratio, which is why it's critically important to find a MOTIVATED LENDER.

Don't follow the "canned" financial advice like you see on TV. Most of that advice is "rule of thumb," and designed for the lowest credit rating and highest interest rates.

Think about this...

If you spend two or three days to find a loan that saves you \$40,000 to \$150,000 over its term, your time is WELL WORTH SPENT! Doing a little homework on your own will literally save you thousands over the term of your loan.

Secret #4: Save A Bundle When Financing.

Your ability to afford a home will be related to a number of items. They are:

1. The PRICE of the home.
2. Your DOWN PAYMENT on your home, and thus the amount financed.
3. The INTEREST RATE and POINTS of your loan – the amount a bank charges you for the money.
4. The TERM of your loan: 10 year, 15 year, 30 year.
5. The overall TYPE of your loan. Most common is fixed vs. variable rates, but there are hundreds of loan packages from which to choose.

And just in case you were looking for a specific "*rule of thumb*," for financing your home, you should know that...

There Are NO General Rules Of Thumb About Financing Your Home.

Each case is different, and your personal financial circumstances will have an impact on how much home you can afford.

However, you MUST understand the relationship and impact interest rates, term of loan, points, and type of loan can have on your overall financial picture.

Let's start with the "amount financed" first. Many people often pay cash or put 20% or more down as equity. The reasons they do this are:

"The bank required us to..."

"We've just always put down this amount..."

"We wanted a lower payment."

Problem is, these reasons could cost you thousands of dollars.

The answer for how much you can put down on your home is different for most people. However, I have learned over time that...

Many People Put Down More Cash On Their Home Than They Need To, And Could Have Received A Better Return On Investment Had They Invested The Money Instead Of Putting It Into Their Home

Here's a simple and fast way to "ballpark" the actual annual return on investment you get from the money you put down on your home:

1. Take a look at the homes in your area. How much have they appreciated each year on average, over the past five years? For example, you might find that values have increased an average of 1.5% a year.
2. Now, take the total cost of your home, multiply that value times 1.5% (the average expected annual appreciation of your home). For example, a \$150,000 home increasing value at 1.5% for the first year. Thus, the home will be worth \$2,250 more a year from now.
3. Now, divide the amount of increase in your home (\$2,250 in the example) by the total amount of Down Payment you put into the home. For example, if you put down 20% (or \$30,000), then $\$2,250/\$30,000 = 7.5\%$.

Now 7.5% sounds like a fair investment. But the question you need to ask is this: Can you make more than 7.5% elsewhere?

And did you notice something else here? Had you put down just \$15,000, your return on your Down Payment would be 15%!

The moral of the story: Putting more money into your home may make your banker happy, because it lowers the risk of getting his money out if you default.

And it may make your overall payment a little lower...

But it may be a wiser decision to put less into your home, IF you can locate an alternate investment that will pay greater interest on your hard-earned equity.

Now, let's shift gears a little and talk about the impact Term and Interest rate will have on your overall financial picture...

How INTEREST RATE and TERM can make or COST you THOUSANDS!

Mortgage lenders toss around interest rate numbers as if they didn't matter.

They DO!

And to illustrate the impact interest rates can have on your overall financial picture, I've presented a sample table below showing the interest you pay over the term of a 30 year, \$150,000 loan at 8%, 7% and 6%.

And here's the clincher: Just ONE percentage point on a \$150,000 loan can cost you almost \$37,000 over the term of the loan! TWO percentage points will cost you over \$72,000!!

Your banker might tell you his "*slightly higher rate*" is only a matter of \$103 a month in payment. But YOU should know better! Take a look at the table below:

<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Monthly Pmt.</u>	<u>Interest Paid</u>	<u>Savings</u>
\$150,000	8%	\$1,101	\$246,233	--
\$150,000	7%	\$998	\$209,263	\$36,970
\$150,000	6%	\$899	\$173,757	\$72,476

That's money taken out of your pocket if you don't look for good rates!

And if you think interest rate has an impact on your overall financial picture, take a look at what modifying the TERM of your loan can do.

Here's another example of a \$150,000 loan at 7% interest. But this time, we examine the total interest paid when you select a 30-year vs. a 15-year vs. a 10-year amortization:

<u>Term</u>	<u>Interest Rate</u>	<u>Monthly Pmt.</u>	<u>Interest Paid</u>	<u>Savings</u>
30 Year	7%	\$998	\$209,280	--
15 Year	7%	\$1,348	\$92,640	\$116,640
10 Year	7%	\$1,742	\$59,040	\$150,240

The "bottom line?" Estimate the maximum amount of payment you can afford, and adjust TERM and INTEREST RATE of your loan to minimize the amount of total interest you'll pay.

But then your banker cuts in and says, "*but the interest you pay is Tax Deductible...*" And you should know this: If you're in the 28% tax bracket, for every dollar in interest you pay, you only save 28 cents. Don't go spending a dollar to save 28 cents if you can help it!

Here's How To Instantly Know How Many Points You Should Pay...

Another consideration in the formula is the amount of POINTS your lender will charge you to initiate your loan. And what you'll notice is there's a GAME being played with you.

And if you don't know the rules of the game, YOU LOSE!

Sitting across from a banker while he throws obscure numbers at you like you're a human dartboard can be pretty overwhelming. And frequently you'll hear terms like "7.5% with 1.5 points," or "7.25 with 1 point."

All-the-while you're thinking to yourself, "*I have no idea what the financial impact of this guy's blabbering means to me.*" And quite frankly, your banker knows...

The Less You Know About What You're Paying The Better For HIM!

So hopefully this little "ballpark" example will help you quickly determine the best *points-to-interest rate* for you. How many points should you pay, and what formula is best for you? Here's a little help...

If a banker is giving you several options of interest rates and points, you need to sort out the financial consequences so you don't lose money. Say, for example, you were considering two loans. Both are for \$150,000, and both are 30-year amortization.

DEAL #1: One loan he offers you is 7.5% with 0 points for origination...

DEAL #2: Another loan he offers you is 7%, but he wants two points to originate the loan.

What's the ONE factor that will determine which loan is better?

How LONG You Keep The Loan!

The first thing you need to think about is how long you're going to live in that home. The average homeowner spends about 5.5 years in their home before selling for whatever reason.

So, for example sake, let's say you plan to live in the home five years. Here's how you determine which deal is better:

1. Take the difference in monthly payments (principal and interest only) of EACH loan.
2. Multiply that amount by 12 months to get the annual amount of difference.
3. DIVIDE that amount into the \$\$ amount of points you pay to determine the number of years at which you recover the points paid up front. If the number of years is LESS than your anticipated time in your home, you'll be better off paying the points and getting the lower rate. If it's higher than you plan to spend in the home, opt for the lower points.

Here's an Example...

<u>Loan</u>	<u>Points</u>	<u>\$\$ Points</u>	<u>Interest Rate</u>	<u>Mo. Payment</u>
#1, \$150,000	0	\$0	7.5%	\$1,049
#2, \$150,000	2.5	\$3,750	7.0%	\$998

1. The difference in monthly payments is \$51 a month ($\$1049 - \$998 = \51).
2. $\$51 \times 12$ months is a savings on (approximate) interest of \$612 per year.
3. Total Cost Of Points divided by \$612 is 6.13 years ($\$3,750/\$612 = 6.13$).

The result? If you stay in your home for five years, you will *NOT* recoup the points you paid up front with the savings in a lower interest rate. Recoup time is about six years and two months to breakeven.

So your best bet would be to select loan #1.

If, however, you planned to keep your home beyond six years and two months, you'd be better off with loan #2 (i.e. the overall savings in interest rate will exceed the amount you paid in points – not considering the time value of money).

Are you starting to see how important it is to understand your home's financing? How important it is to shop for the best rates, terms, and points?

Good! Now, let's move on to another important secret for buying your home...

Secret #5: How You Evaluate Homes Will Save You Thousands of Dollars And Heartaches!

One of the biggest mistakes people make when buying homes is they rely solely on "*local neighborhood market analysis information*" to determine the right price to pay for a home.

Before you buy or refinance your home, **INSIST** on seeing a "total market overview" of exactly what is going on in the **ENTIRE** market. Then narrow your analysis to local market information.

Why do I say this? Because you want to know two things: 1) What is the **ENTIRE** market doing with values? Are they going up? And by how much? 2) What is the specific area doing with market values? How does it compare to what the total market is doing? Are the growth rates the same, lower, or higher than the overall market?

Understanding these parameters will save you thousands of dollars when you make an offer on a home. I frequently perform both of these analyses for my buyers, in an easy to understand format, so you know **EXACTLY** what you're buying!

OK, so let's say you're now pre-qualified with financing, and you've also found a number of homes to preview.

The Way You Inspect A Home For Sale Can Save You Enormous Amounts Of Money And Time

It's now time to find not only a home that fits your needs, but a home that will be a good investment. What are some of the things you should look for?

Well, the first thing I always look for is what I call "siting." Siting involves evaluating three areas: **Location, Lot siting, and Home siting.**

The general location of the home you're considering could determine how happy you'll be living there, and what kind of an investment you're buying. Here's an important tip that will almost always make you money...

Buy The Midrange Home In The Best Neighborhood You Can Afford

Why do I say this? Because the better the neighborhood, the better the appreciation for you over time. And if you buy the midrange home, the home will "*generally*" appreciate faster and greater than a higher priced home in the same area.

Plus, you will most certainly spend money updating or decorating your new home, and you don't want to get "upside down" on your home's value after spending money for improvements. So remember...

NEVER Buy The Top Of The Market!

Now the second area you need to consider is **Lot siting**. Lot siting has to do with WHERE your particular lot is located in the subdivision you're considering. Ask your agent for a plat map of the entire subdivision. Now take a look at where your home's lot is located in the subdivision.

Is it near a common area? Does it capture better views than other lots in the area? Is it more private, or shaped better than other lots? Is it near a loud street?

Lot siting in a neighborhood will give you a basis for knowing how well the home will appreciate vs. other homes in the neighborhood (assuming the home is reasonable).

Finally, you want to look at the **Home siting**. How well did the builder take advantage of all the amenities the LOT offers a home? Are the views great? How's the curb appeal? Is there a balance between front and back yards? Do you see any drainage problems because of where the home has been located on the lot?

Think through these things as you visit each home.

Now, as you approach your home, there are other things you want to keep in mind...

1. What is your initial reaction of the home as you approach it from the street? This is called "curb appeal," and it has a great impact on the value of the home. Is the home

sited right on the lot? Notice the areas around the home? Are they well maintained? Is the landscaping groomed?

2. Take a look at the structure of the home? As you go through the home, windows and doors should be square, and they should close correctly. Look around windows and doors for cracks. Check corners of rooms for sloping or tile/wood cracks. These may reveal foundation or water problems.
3. Now think about the floor plan of the home. Is it functional? Do the common areas flow the way you want them to? Are the halls narrow and long, or are they open? How far will you have to carry the groceries from the garage? Are the rooms the right size and height for your desires? If there have been any additions, were they done professionally? Do they fit with the flow and style of the home?
4. Now, check the roof and ceilings. Is the roof the type you prefer? Is it in good condition? When was the last time the home was roofed?
5. Now make a basic check of the plumbing, mechanical, and electrical systems. Do drains and toilets work correctly? Is the property connected to sewer, or will you have to deal with a septic system? Is the electrical wiring up to code? And are the mechanical systems working properly? Make sure you get these systems inspected by a licensed contractor or inspector BEFORE you close any deals.

Secret #6: Save Thousands of Dollars Writing Your Offer And Negotiating Your Deal

Years ago a real estate expert told me that the party who is less motivated almost always gets the better deal. The ONE single element that will determine how well you negotiate your offer is...

How MOTIVATED Is The Seller, And How MOTIVATED Are YOU?

If the home has been on the market for over a year, perhaps it's because the seller hasn't been motivated enough to sell. Or perhaps the home hasn't sold and he/she is very motivated.

And if you've been looking for four months, your kids are late for starting school this year because you haven't found a home yet, and you now have found the right home, YOU may be very motivated to buy!

Nevertheless, here's a tip you MUST bring to any real estate transaction...

Move Heaven And Earth To AVOID Emotional Attachment To The Home You're Considering

If you're all giddy about the home. If you can't hold back your emotions when around the home, then you're going to get clobbered when negotiating the purchase.

That's just ONE reason why you need a REALTOR® representing you during any transaction. The middle person alone will help save you money.

So let's say you have a REALTOR® representing you (make sure it's a BUYER'S agent, or you could lose a bundle!), and you're ready to write an offer.

What's the single best piece of information you can have?

It's the comparable sales and market data for the entire market and the area. Ask your REALTOR® to print out both for you to use. Now, here's what you want to do...

You want to take a look at FOUR important “*market telltale signs*:”

1. Take a look at the currently active (for sale) listings in the area. Was the home you're considering priced within reason to other homes? If so, you know you're at a reasonable starting point.
2. Now, take a look at what the average selling price is compared to the listing price. You may notice that most homes are selling for about 3% or 4% less than their offer price. If that's the case, you know the original offers were LESS than this amount. Take this into consideration when making your offer. And leave plenty of room for negotiating.
3. Now, make sure you visit several of the other listings in the area. How does your home compare to the other homes? Is the home you're considering in similar shape? Is it better sited? Is it bigger, smaller, better style, better landscaping, etc.? These factors will help you determine how much you should pay for your home vs. how much others paid for similar homes in the neighborhood.
4. Now, take a look at the average market times for homes in the area. If they're long (evaluated on a market by market basis), the market may be soft, and you might have more negotiating room with your offer.

You're now ready to make your offer. At this point, I highly recommend you work closely with a BUYER'S AGENT to structure your offer. They will talk about strategies such as: 1) should you offer a high price and ask the owner to throw in all kinds of extras, or 2) offer a low price and skim your way into the neighborhood?

The correct answer depends on your personal situation. And you need to work closely with your REALTOR® to strategize your offer.

Secret #7: Be Financially Prepared – Ahead Of Time!

Many people go about the home finding process backwards. They go through the entire process of searching, evaluating, and writing an offer on their home, WITHOUT being financially prepared.

And it usually costs them money. Big money!

Completing a few things up front *before* you go searching will save you a lot of money, time, and hassles. What are those things?

Here are three of them:

First, find a MOTIVATED lender.

No, don't just go down to your local bank where you'll likely be slowly tortured by bureaucracy and paperwork. Your banker may be a good friend for your checking, savings and perhaps an auto loan. But most bankers are not motivated to work hard to earn your business (although some are changing their ways).

That's because one of the quotas bankers have to live by is: "*How many BAD loans did you originate?*"

They don't get measured by their production...

They don't get measured by their service...

They only get measured by the MISTAKES THEY AVOID!

Now, I know if your local banker sees this, he's going to cringe a bit, and start reciting all the ad campaign jargon most banks are spouting these days. But the truth is...

There Is Absolutely NO Incentive For A Traditional Banker To Serve Your Best Interests

What you want to do is find a mortgage lender who is MOTIVATED to take your loan. One who represents many different products, and can offer you many options for making your loan most affordable.

Here's an important tip: Ask your REALTOR® to refer one or two lenders to you. Why? Because agents have power over lenders because they send them lots of clients. It's not just YOU alone talking to them.

If they don't give you first class service, the agent who sent you will refer (ALL) their clients to someone else. So they're motivated to SERVE YOU. And the minute you have a problem with your loan, you can turn to your agent...who has much more influence and leverage over the lender than you alone.

After all, your agent and lender both want to see the transaction close. There's power in numbers and influence. Use it to your advantage.

Now, the second thing you want to do is GET PRE-QUALIFIED with a lender. Better yet, try to get PRE-APPROVED.

Why?

Because the first question any home seller will ask when an offer is presented is "*Is your buyer approved for a mortgage?*"

And rightfully so! The seller doesn't want the deal to fall through because you couldn't get financing. When they accept your offer, their home comes OFF the active market. If you fall through, it costs them time and money.

Plus, there's one more reason to get pre-qualified or approved...

You Will Have Much More Power To Negotiate Price And Terms When You're Financially Qualified!

When you have money behind you, the seller knows you're serious. And a serious buyer ALWAYS has more influence to negotiate. So do yourself a favor, GET PRE-QUALIFIED or PRE-APPROVED!

Now, the third way to become financially prepared is to have deposit funds available immediately. One way to do this is to write a check in the amount of 3% of the highest price you've been qualified for financing.

Make the check out to the Brokers Trust Account, or the Title Agency you will use. The broker or title company are trustworthy fiduciaries by law, and will hold the check un-cashed until you make an offer that's accepted.

Now I know what you're saying... *"It'll be a frosty day in Tahiti before I write a check before we've even located a home."* I understand.

But you may want to consider this...

Jim and Susan were buyers from outside their immediate area. Because of their distance, they could only get together with their agent with two days notice. And the market was pretty good.

Three homes came on the market, and were sold before they could get together to visit them. Twice, they lost other deals because of bidding wars.

Finally, out of frustration, they placed an un-cashed deposit with their broker.

When they finally found the right home, they decided to write an offer...

And because they placed an un-cashed check on deposit, their agent could enter negotiations with verbal authority to make the offer. And because the agent could demonstrate that he had earnest funds, the buyers were able to sign a faxed copy of the offer, and their deal was secured.

And it's a good thing! The very next day, three more offers came in on the home they just put into escrow!

Secret #8: Use A BUYER'S REPRESENTATIVE!

There's a huge difference between a Buyer's Representative and other agents. First and foremost, if you don't have a specific agreement to be represented by your agent...

Chances Are, YOUR Agent Represents The SELLER!

Yes, it's true. And the question you have to ask yourself is... "*Is this person going to represent MY interests?*"

Think about this: If you had to go to court, would you use the same attorney the opposing side was using?

I think you know the answer! But did you know that by creating a "*buyer's representation*" with your agent, you not only get someone representing you, but...

- A buyer's representative doesn't cost you a nickel more than any other agent. Even though they represent you, they're still paid out of the standard commission...
- Buyer representation is easy to enter into, and will support ONLY your interests. This includes finding your home, helping with financing, and negotiating the best possible deal for YOU...
- A buyer's representative will keep everything about you and your deal CONFIDENTIAL!

OK, so you know the difference between any agent and creating a "*buyer's representation*." But did you know what a good agent can do for you?

- A good agent knows the area you want to buy in because he/she is out constantly looking at homes.
- A good agent can spot trouble for you. He or she will be experienced at looking at homes and will see things you might not see.
- A good agent will greatly simplify the buying process.
- A good agent will give you *motivated*, reliable financing sources and options.
- A good agent will refer you to proven inspectors, title and escrow officers, and other service providers you'll need.

Most importantly, you need to know that...

**There Are "*Real Estate Agents*" ...
And Then There Are Committed Professionals.
Which One Do YOU Want Representing Your Interests?**

I hope the information above has given you helpful advice finding, buying, and financing your next home.

And at this point, you're probably pretty clear that, in order to find the right home and save money, you need someone competent and professional to represent YOUR interests.