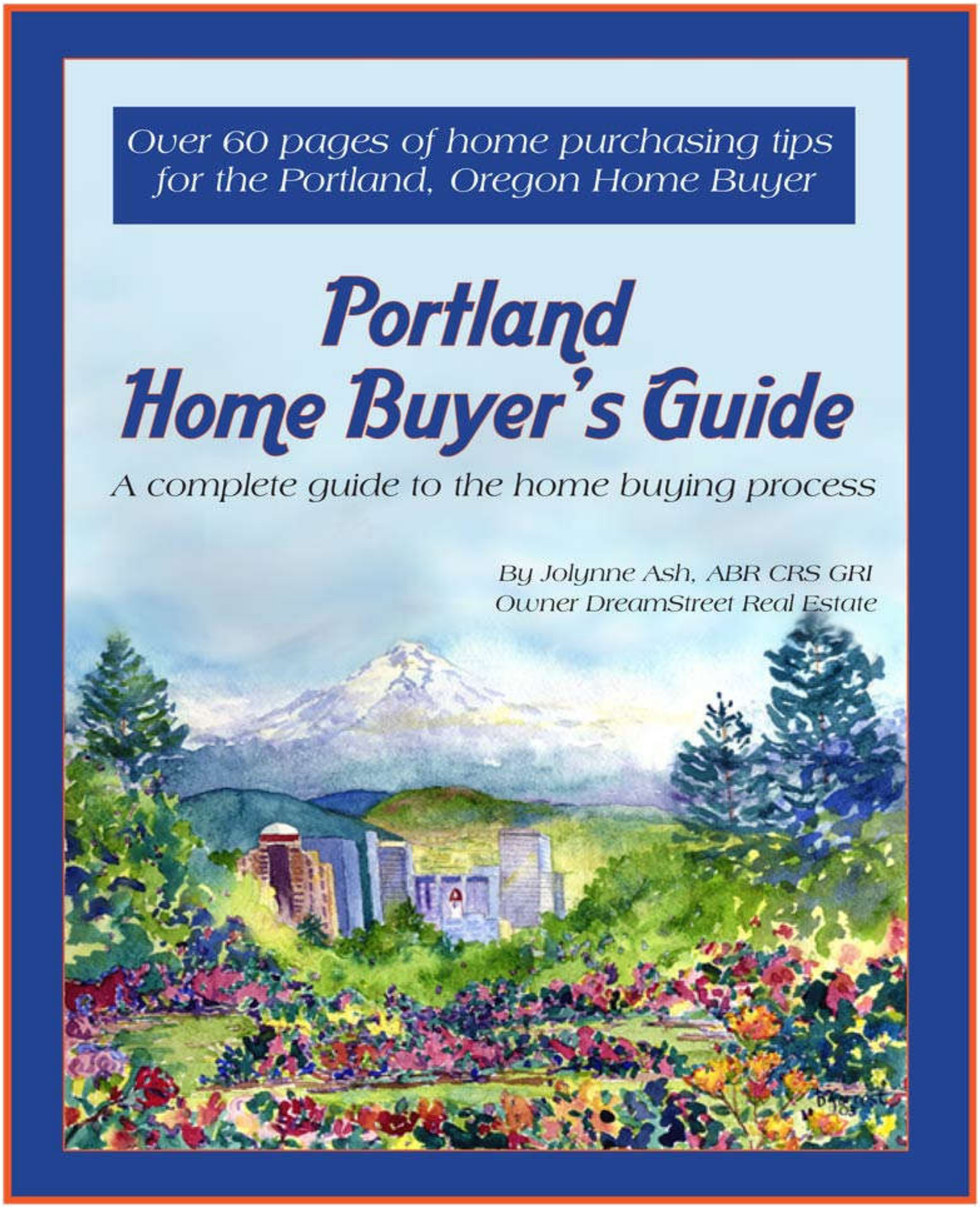


Jolynne Ash, Buyer's Agent, Principle Broker
Berkshire Hathaway HomeServices Northwest Real Estate
www.Jolynne.com

Jolynne Ash ABR,CRS,GRI

Author's Biography

My Real Estate career began in 1991 after spending 10 years in High Tech. I raised two children and grew my business in the 90's, doing and learning about the Real Estate industry and doing all the typical things Realtors Do; Listing homes, selling homes, looking for clients, and building a strong referral business.

In 2002 I moved away from the traditional Realtor practice and decided to become an Exclusive Buyer's Agent. By not taking listings, I eliminated any possibility of a conflict of interest. I was also able to further develop my skills and training in the areas of negotiation, finance, and neighborhoods. I completed the Graduate Institute of Real Estate training and certification, and also the Accredited Buyers Agent, a nationally recognized designation only a fraction of Realtors hold. This allows me to offer my clients a higher level of service, commitment, experience, and expertise in the Home Buying Process.

In 2012 we moved under Berkshire Hathaway NW and love it here. I manage a team of five which includes my husband Malcolm, and two other full time brokers that have been with me for more than 15 years. We also have an administrative assistant to keep things running smoothly in the office.

To contact me with any questions you have please go to my websites at **www.jolynne.com**, blog at **www.PortlandMyWay.com**, **www.Facebook.com/JolynneAsh**, or email at **jolynne@DreamStreetRE.com**

LEGAL NOTICE

This book is an informational tool for Home Buyers, especially those looking to buy a home in Oregon. It is intended to be viewed on a computer so the reader can take view the live links used as reference material throughout the book. These references provide important background and further information home buyers should be informed of.

This information contained is based on my personal knowledge, research, and experience, but is not guaranteed to be accurate. Things change in this industry every day. Direct contact with experts in each field should be made prior to making any financial decisions (CPAs, Attorney, Realtor, Mortgage Lender, Escrow & Title). In some cases information reflect the views of certain Realtors and my personal experiences, which may conflict with the views of others. While all attempts have been made to verify information provided in this book, the Publisher assumes no responsibility for errors, omissions, or contrary interpretation of the subject matter herein. Any perceived derogatory information of specific persons, peoples, or organizations are unintentional.

This book is not intended for use as a source of legal, business, accounting, taxation, or financial advice. All readers are advised to seek the services of competent professionals in legal, business, accounting, taxation, and finance fields prior to making decisions.

Disclaimer from BHHS:

Services Provided by Jolynne Ash, Principle Broker, DreamStreet Team at Berkshire Hathaway Home Services Northwest Real Estate, 3 Centerpointe Dr. Suite 260 Lake Oswego, OR 97035. 503-678-2020

Table of Contents

Chapter 1 - Should I Buy?

You're at the point in life where you're seriously considering purchasing your first home. You're sick of paying rents that are too high, and you've realized that it's time to start investing in your future. You have a steady income and have been able to save a little for a down-payment and closing costs, or maybe you have parents or grandparents that have gifted you these funds to help you get started on the road to home ownership. You have a dream and a vision of your own little slice of the American Dream and a place you can call "home". Sound familiar, sounds like you need to explore the world of home ownership and learn all you can about Portland Home Buying before you take the next step towards this dream.

In most situations, it will be cheaper long-term to buy instead of rent. You will save on taxes, leverage your investment, and grow some equity. But the non-financial reasons to buy a home are just as important. Because you will trade freedom from home maintenance and upkeep for some of your weekends and evenings that you now spend on leisure time. It's worth it in the long run for most people. Every prospective homeowner has to ask what is really right for me and my situation?

What's the Difference Between Rent and a House Payment?

When you pay rent it's just a dollar amount, a number. Simple and straight forward. For xxx dollars, you get to continue to occupy a home/apartment/condo for 30 more days. With home ownership comes a house payment for most first-time home buyers (unless you're an heir to the Hilton's, Kennedy's or just won the Powerball). This payment is made up of a bunch of numbers. Some of these are deductions on your annual federal and state tax return (please consult IRS publications and a tax professional to estimate how this will affect you). The short version is this:

- Principle
- Interest
- Mortgage Insurance (if less than a 20% down payment)
- Property Taxes
- Fire/Home Owners Insurance

You will also have to pay all the utility bills like water, sewer, garbage, electricity, natural gas, and maybe an HOA fee (Home Owners Association).

Exceptions to these are everywhere but if you are thinking of a single-family residence in a typical suburban location all or most of these will be part of your new monthly budget. So be careful with looking online at home prices and interest rates and calculating a "payment" based on the typical online calculator.

They may not tell you the whole picture of what your actual monthly costs will be. There is more on this later in the book.

So, the bottom line on “Should I Buy?” is based on both your ability to afford a home and its monthly cost, your desire to own a home (we call this “motivation”) and the timing of the purchase and if this is the right time for you. This is an area you should discuss with your trusted advisors, among them a Realtor, tax professional, and close family you rely on with major decisions.

What About the Market?

The housing market is always going somewhere but no one really knows where it’s going because it never gets there. Just like the stock market there is always some amount of up and down in prices and buying power in Real Estate. From 2008-2011 we saw the most significant down turn in Real Estate in over 50 years. It was a rude awakening to many and caused a lot of people to change their perspective on Real Estate as a safe investment. But just like the stock markets have rebounded, so has Real Estate. Market values in Portland are returning to around what they were in 2006-2007 before the recession. 2012 was the turning point in the recession. 2016 ended with an appreciation of 11.4% (double the national average). I expect 2017 to show a slower appreciation rate but at the same time we will continue outpace the national average. We are in a very strong Sellers’ Market with most quality properties seeing multiple offers and selling for more than the asking price

Do Interest Rates Matter?

Most people buying a home in America rely on a loan from somewhere to make the purchase. Anytime you borrow money it comes with interest, or a percentage paid on the outstanding balance each month to the entity that is letting you use their money for 30 years. When you get a Mortgage, as it’s typically referred to in Real Estate, you are offering the property you are buying as collateral in exchange for a loan of the money to buy that house. You both borrow, agreeing to pay the debt in full, and you offer a “Trust Deed” giving the lender of the money the right to take the property (Foreclosure) if you fail to pay your debt. We could write forever about this but that’s all you really need to remember for now.

Although the housing market may be going your way, it does not mean the interest rates on mortgage loans will follow suit. Interest rates tend to rise when the housing market improves, but the two are not tied together. Interest rates are based on the bond market, not the stock market. Interest rates have gone up since the election and the Feds have raised the key interest rate twice since then. Mortgage interest rates change three times a day so I can’t print anything that will be accurate for a long period of time.

The interest rate you receive will depend on many factors, including:

- Where you get your loan, the lender
- The type of loan you chose
- Current credit score (FICO score)
- Amount of down payment
- Your income to debt ratio

Should I Wait or Buy Now?

When housing prices drop, interest rates don't always follow. Often they go the opposite direction. And with home prices on a 5 year upward trend and interest rates beginning to rise your purchasing power could be shrinking monthly. Interest rates have stabilized for the past few months (4-4.5%) but are projected to rise to around 4.5-5.0% by late in 2017. Even though prices may be more negotiable in the Winter, if interest rates go up the monthly payment with be higher. Looking long-term, a lower interest rate is more beneficial than a lower sales price. I post regular updates on my blog at www.PortlandMyWay.com with the latest market conditions on home prices and major changes in interest rates and loan programs. Check it regularly to keep updated.

Moving Out of a Rental

If you are currently renting and buy a home, you will need to give notice to your landlord at some point. It is usually best to wait until you have a property under contract (you have made an offer using a Buyer's Agent to represent you, and the seller has accepted your offer), and it has passed the home inspection. After inspections are complete and you know the home is going to be acceptable to you to complete the purchase, then go ahead and give notice. It's always better to pay a couple of weeks of extra rent and have an overlap than to wind up with no place to sleep for a few days or weeks and end up couch surfing.

Depending on your situation (renting month to month vs. lease with a long-term commitment), you may be required to give your landlord additional notice. Read your rental contract or lease agreement to determine if you have any early move out penalties. Most leases charge extra fees to move before the expiration date. Typically leases charge 1.5 months of your normal rent as a penalty for early termination, but it can vary widely. Make sure you will get your deposits back if you move out before your contract expires.

Watching the Housing Market – When to Buy?

For the past several years, the housing market has been favoring Sellers. There is a shortage of houses for sale, and lots of buyers in the market. With more people finding full time employment and the general mood of the economy improving, buyers are out in droves looking for a home. This increase in buyers has created huge demand in some neighborhoods and that has resulted in multiple offers on many houses in the past two years.

With the current “Seller’s Market” many Sellers hold firm on their prices. Things like sellers paying part of your closing costs are also coming to an end in most transactions now. While this sounds like bad news for you, the housing market can be very fickle. Depending on where you want to live, you may still find lower prices, foreclosure deals, and negotiable sellers. This is more typical in outlying areas of the Portland Metro Area and in rural communities a short commute away from the city. If you love the rural lifestyle these areas may be a good option. You should watch the housing market for the short-term fluctuations of course, but also study the longer-term trends of the past few years and read the analysts and forecasters prognostications of where prices and interest rates are headed to factor into your decision. The best time to buy always seems to be in the past. But the best time for you to buy is a personal decision and should be more about what you want and can afford, than trying to “time the market”. The Portland Metro area experienced large gains in housing prices in the past three calendar years. We ended 2015 with 7.9% appreciation; 2014 with a 7.7% appreciation; 2013 with 12.8% appreciation, and 2012 with 6.3%. 2016 ended with appreciation of 11.4%.

Will My Investment Payoff?

While you should not become a slave to the housing market, you should keep the following in mind before buying your first home:

- The past market value of the home you are interested in buying – has it been traditionally higher or lower than other areas?
- Are you buying a house you can grow into? If you need more house than your budget can afford, consider the possibility of a lower priced area.
- Neighborhood value – does it hold values well over time, or is it on the decline because of some outside dynamic that is changing it.
- How much the home could increase in value over time?
- What can you do to the home to increase its value over time?

Just because you buy a home for a great deal does not mean you will make a huge profit when it is time to sell. The housing market will continue to change and since this is your first home, you should look at it as a long-term investment.

Any improvements you make on the home will increase its overall value, but certain improvements will increase it more than others. Maintenance items like new roofs, water heaters, furnace, or plumbing fixtures may not result in a measurable increase in the value of a home. While a kitchen or bath remodel may have a much higher return. And most projects do not gain 100% of what you spend. More like 50-80. Improvements should be made earlier so you can enjoy these new amenities, while also increasing value when it’s time to sell.

It is important not to spend too much money on renovations, as it's possible to over-improve a home for a neighborhood. The value of a home is determined by the market and other homes in your neighborhood that sell around the time you decide to sell your home. So, it doesn't matter how much money you put into a remodel, it matters what your neighbors are doing to keep their house up and improvements they are making. More generally how the community and area you live in are doing and the draw of new buyers to that area drive prices of homes.

Before planning and undertaking a major home improvement give your Realtor a call and get their input on how much your planned improvement is likely to increase the value of your home. Then put a budget in place for improvements and stick to it.

We always recommend to our buyers to stick to their purchase price budget, one that allows them to still have an enjoyable life style and not end up "house poor". You want to still save for retirement, put some money aside for a vacation, and save some for future maintenance and home improvements.

Owning a home is a big responsibility. Knowing how the market is moving and spending your money wisely, will help when you are creating a budget (don't forget home maintenance costs), applying for a mortgage, and deciding how much to put down on a home.

Chapter 2 – Where Should I Buy?

There many common reasons to buy a home and among the most common is to live somewhere new. Many of our first-time home buyers are moving to Portland from other places in the country. Making a career change and have more income to afford a home, or moving closer to family or friends. There are many things to consider when deciding where to invest in a home. Like how long you want to live in this home you're about to buy. Usually 5 years is a good minimum time horizon to consider when buying.

Location, Location, Location

It's the oldest line and joke in Real Estate, but nothing is more true. The location of the home you buy has more to do with its current and future value than any other factor. One of the greatest factors regarding the price of a home is the neighborhood or area it's in. Location has an even greater impact on price than the size of the lot or the square footage of the house.

In real estate, ***location is everything***. Depending on what your personal preferences are, you should expect the costs of properties to change based on location, even when all other features and factors are similar. In Portland, a home in NE Portland is typically going to be more expensive than the same home in SE Portland (although that's changing as SE has become one of the hottest areas to live in). A home within walking distance to a neighborhood commercial shopping area, walking distance to shops, restaurants, and coffee shops usually sells for more than one in a more remote part of the city. North Portland is still a relative bargain for living in the close in neighborhoods where commutes are short, bike-able, and have good access to mass transit.

From a financial perspective, buying the cheapest house in the best neighborhood is almost always a good investment. If the house is not too dissimilar to the rest of the area it will hold its value well and rise with the value of the other nicer homes. Improvements can be added to make it more like the neighbors, increasing the value even more.

You will also want to consider what is available in different areas based on what is most important to you. The following questions will be important to keep in mind:

- What is the commute to your place of employment?
- Is public transportation available? (even if you don't use it)
- Do you want to bike to work, or to the store, or for recreation?
- Do you like to go for walks in your neighborhood in the evening?

- Are grocery stores or other services you rely on regularly located close by?
- How are the local schools rated?

All of these factors will influence your decision of what are to buy in. If you have small children, considering the quality of the schools is essential. Not only will the quality of education affect your children, it will also affect the future value of your home.

Are You a City Mouse Or Country Mouse?

My daughter had a book by this title that I must have read 100 times. And the point was that some people love the open spaces of a green field in the spring, a farmer on his tractor, and the dust in the air. Others would rather die than live more than 1 mile from a Starbucks. We have both in Oregon and it's crisply divided. Homes on small acreages or in small rural communities within 10-20 miles of the "Metro" area are often lower in cost than those in the city or in its major suburbs. The rural life style abounds and can be quite attractive to some. There are properties that are "small acreage" or hobby farms out there to buy if you have a sufficient budget to afford them. Living on a small acreage can offer a wonderful lifestyle. Having a few animals, growing a large garden, being more self sustaining all appeal to many. And often having lower taxes, less government oversight, and fewer imposed rules, is also appealing. Some of these things can be enjoyed while still living in the city. Portland city code allows for 3 chickens and one coop per home. Actually, up to 3 critters of a variety of type are allowed. Google it, I'm not kidding.

Small acreages are not cheap because there are a limited number of them in the state and our land use planning does not allow for the creation of any more. Outside the city limits, it is not possible to subdivide and create a parcel of land smaller than 80 acres. This is based on laws put into place in 1975 aimed at protecting farmland. It is also the reason we do not have urban sprawl like most other cities our size.

This same set of laws form the 70's created the Portland Metro urban growth boundary (UBG). This prohibits development and zoning changes outside of this boundary or the expansion of city limits outside of this boundary. The boundary is reviewed by a regional government and expanded about every 20 years. Any land being developed and subdivided since 1975 within the UGB was platted at the then current development standard – which gets tighter all the time. People often ask us to find them a 5-year-old house close to a modern community and on a 1 acre lot. Generally, this doesn't exist in Portland or the surrounding suburbs because of our development process. The newer the subdivision the smaller the lots generally are. And if the lots are a bit larger (.25 acres is big) then the prices go way up because the houses built on those larger lots are McMansions (West Linn is a prime example of this).

Commuting times in the Portland Metro area are increasing every year and there is no end in sight. The population is increasing every year and there are no long-range plans for transportation improvements on the books. We have an excellent public transportation system but that does not service the rural areas around the City.

Pros and Cons of Living in The City

On the other hand, if you are interested in living within city limits, you will want to pay attention to additional costs and factors such as metered water, sewage costs, pet restrictions, and any neighborhood bylaws that you may be affected by. For example, in many cities there are laws preventing residents from having too many pets. And in many neighborhoods, there are additional CCRs (Conditions, Covenants, and Restrictions) attached to the property further restricting everything from pets, outdoor sheds, parked cars, RV storage, and the colors you can paint your home. Believe it or not, there are CCRs that require you to park your car in your garage.

You will want to try to spend some time in each area you’re considering, so that you are able to get a personal feel for the neighborhood. Consider walking around to explore the area; journeying through neighborhoods, visiting nearby attractions, restaurants, and parks, and talking with locals can have a huge impact on your decision. While many people overlook this simple step, it can really make a difference in helping you choose an area where you feel safe, relaxed and truly at home.

Getting it right is important because the stress, hassle, and cost of selling and buying a home is significant. The biggest reason homeowners sell is so they can buy a bigger house. Sometimes buying bigger in the first place makes sense and saves money long-term, if it fits your budget. And remember location is everything and moving your location further from the city center will usually reduce the cost so you can afford a larger house. It’s a trade off.

City living carries many different benefits, including:

- Quick & Easy access to local events
- Possible shorter commute
- More options for stores, restaurants and schools
- Public transportation
- Typically offers more cultural events, concerts, and attractions

Just the same, there are also cons to living in the city as well, including:

- Higher population
- Less property and personal space
- Higher housing costs
- Higher taxes
- Higher crime rate
- Higher utility costs

If considering buying a house in the country, you will also want to weigh the pros and cons, including:

Pros:

- Lower property tax costs
- Less population
- Not as many zoning issues or restrictions
- Overall cost of living is usually lower
- Room for pets, RV's, and hobbies

Cons:

- Fewer amenities available
- Further commute to work and shopping
- Fewer schools & businesses to choose from
- Issues dealing with wells, septic systems, etc
- Less entertainment and cultural events nearby

Slope, Zoning, Views, Flood Plains - ???

The physical location of the property within the neighborhood is also important. If the property is located at the bottom of a slope, you may have water issues in the crawl space or a soggy lawn. Especially if the property borders a creek or a wetland as many properties do in Oregon. How much sun does the property get? Do the trees create too much shade? If a big green lawn and sunbathing are your favorite pass times, then too many trees may be a bad thing. On the other hand, if you are sensitive to sun and heat but want to spend time in the back yard, then having a back yard on the North side of your house or big shade trees may be more appealing. Some cities will not allow you cut down trees without permission and a permit.

Some properties are better suited for additions of more space, or conversion of existing square footage to other uses. A property that has potential for an addition is a good choice, even if you do not have an immediate need for more space, you never know what the future will bring.

More and more people are working from home and you may be one of them. This may require a dedicated home office location, or the conversion of an extra bedroom to an office. Many newer homes come with a “den” near the front that is not a bedroom, has more windows and may or may not have a door. So always make sure you “+1” for bedroom count, or get a house with a den, so you have the flexibility for working from home in the future.

Another important thing to keep in mind is the crime rate of specific areas. You can identify potential problems and crime rates by researching areas online. An excellent resource for researching properties and areas within the city is www.PortlandMaps.com. You can also talk to your realtor about any concerns you have over crime rates, and make sure to compare rates between neighborhoods.

In the end it will be how you feel about an area and a house that determines which one you buy. Buying a home is more about ‘feel’ than most people realize. As a Buyer’s Agent, I always keep the financial considerations front and center so Buyers don’t get too excited about the feel and forget everything else. When the ‘feel’ and the ‘financial’ are in line, it’s time to buy!

It is usually best to choose the overall location or neighborhoods you want to live in first, and then find properties within those areas that meet your needs and budget. I offer an upfront consultation to all my clients to discuss these tradeoffs, among other things, and develop a custom plan for you to buy a home.

Chapter 3 – Can I Buy?

Ultimately, the Lender will answer the question above; if you can receive a mortgage loan, you can buy a house. Of course, this assumes that you are approved for enough money to afford a home in the Portland market. As of December 2015, the average sales price in Portland Metro is $382,300 -- don't let this discourage you. The average entry-level house will cost around $335,000 and will not likely to be in Portland's best neighborhoods. If you are flexible and really want to own a home, there are grants available to help with the down payment. Remember that even if you choose to go this route, you still must qualify for the grant and a loan. Most of these program have income limits, so you could be disqualified because your income is too high.

Three things will determine whether you will be approved for a home loan:

- Credit score
- The amount of down payment you have
- Employment history

All three of these issues are under your control. Your credit score can be improved, you can save money until you have enough for a down payment, and you can have a stable employment history.

I believe the housing market in Portland and interest in the market will be very favorable to Buyers for a couple more years. If you start now, you won't miss out on the opportunity to own your own home.

Financing Options

Financing your first home can be the most frustrating part of the home buying process. This is the time you figure out how big or small your budget will be, and you will be overcome with home financing questions. By knowing the facts, paying attention to interest rates, and considering all of your mortgage options, you will be able to choose repayment terms that will fit your current income and allow you to safely make those monthly payments.

I would suggest that you obtain a copy of your credit report before looking for a Lender. There are three credit-reporting agencies and all of them are used by Lenders to determine your FICO score. Basically, your credit history is converted into a number (FICO score) between 500 and 800 with 800 being the best. Each of the three agencies will score you independently. The Lender will use the middle score (NOT the average) for loan qualification purposes. Your interest rate is determined by how high your credit score is. If two people are on the loan, the Lender will use the lowest middle score of both Buyers.

You are entitled to one free report every twelve months through a government sponsored website: https://www.annualcreditreport.com/cra/index.jsp.
Do not use any other site. This site can be confusing, so take the time to read the instructions thoroughly. You will be guided to all three credit-reporting agencies and can download a report from each. When you're finished, check to make sure there are no mistakes; instructions are available to explain what to do if an error has occurred on any of the reports. Please note that the credit report is free but the FICO Score will cost you $7.95. I would suggest that you pay the $7.95 to just one of the three companies (Trans Union is my favorite) so you know the FICO number for at least one of the agencies. A married couple must obtain reports individually. Even though some of the credit items will be in both names, your FICO scores will not be same. Remember, the Lender uses the lowest middle score so you should know what they are for both of you.

Once you have your credit score, the next step will be to find a good Mortgage Broker. Asking your Realtor and friends for recommendations can often be a simple way to achieve this. Your Buyer's Agent, along with your Mortgage Broker, can help you understand the different disclosures and options.

Before you can begin the home buying process, you MUST be pre-approved by a Lender and have a pre-approval letter to present to the Seller. A Lender should be chosen prior to looking at homes, and should not be changed throughout the entire process. Shopping for a Lender needs to happen before you are pre-approved.

Programs Offering Assistance for First Time Home Buyers

This is the absolute best website for finding programs that may be available to assist you in financing a home: www.HOWNW.com This site is a public resource sponsored by the Fair Housing Council of Oregon. The Search for a Program is the best place to start. I can also help with options.

Documentation Required for a Loan

When you apply for a home mortgage loan, the lender will ask for the following:

- Your credit score – Lender will order a Credit Report
- Your income via W-2s and Tax Returns
- Your current income via Pay Stubs
- Monthly debt (car payments, student loans, VISA, etc.)
- Employment verification (usually requires 2 year minimum)
- Bank statements for the last 3 months, bank, and investments
- Statement of Assets

Obtaining a loan today is finally getting easier after the financial meltdown. After several years of very loose mortgage requirements, the pendulum has swung in the opposite direction which it needed to do. You will have to be patient and simply give them what they ask for. There are many factors that go into your approval or denial of a home loan. Your Loan Officer or Lender is not the person making the decision to approve the loan. The person who does decide this is called the 'Underwriter' and he or she has the final say about everything.

Types of Home Loans

Deciding which home loan is right for you will depend on what you qualify for, how much money you have for a down payment and what your lender is willing to give you. There are a few types of mortgage loans, including:

- Conventional fixed rate mortgage loan (most common)
- Adjustable rate mortgage (ARM) loans
- FHA, USDA, VA
- HomePath and Fannie Mae
- Jumbo loans (loans over $417,000)

You should be familiar with these loans so that you will be able to make an informed decision when it comes to financing your new home. Most Buyers get a 30-year fixed rate mortgage with no pre-payment penalty. The amount of your down payment will determine whether you qualify for a conventional loan.

Fixed Rate Mortgage Loans

For the first time, if you're a home Buyer on a strict budget, you may find that a fixed rate mortgage is right for you. Since you lock into the interest rate at the time the loan is processed, your monthly payment will never change for the life of the loan. Most loans last for 30 years, including conventional, FHA, VA and USDA loans. When interest rates are as low as they are today, a fixed rate mortgage is usually the best. Fixed rate mortgages are now available with as little as 3% down for strong borrowers with good FICO scores.

FHA; USDA and HomePath Loans

An FHA loan is the most common loan for First-time Homebuyers since these Buyers often don't have perfect credit. The down payment requirement is currently 3.5% of the sales price (may be a gift with restrictions) or the appraised value (whichever is lower). If you don't have a large down payment, this may be your only option. The closing costs and pre-paids are about 3% of the sales price and can be paid by the Buyer or the Seller (your Buyer's Agent can explain this in more detail). The catch is that the property must appraise for the sales price even if closing costs have been added on. In today's market, we have seen appraisals come at the selling price or a bit higher. There are a lot of costs associated with an FHA Loan, the biggest being mortgage insurance. FHA charges an upfront premium which is added onto the loan AND a monthly premium. Monthly mortgage insurance for a $200,000 loan is approximately $125/month. The mortgage insurance premium will be charged for the life of the loan regardless of the loan balance. Because of this, many buyers will want to refinance once they have a 20% equity position. Monthly mortgage insurance is not a tax-deductible item like property taxes. Minimum credit score is about 620. FHA interest rates are set nationally and don't change as often as conventional loans. They are generally .25 to .50% lower than conventional loans. Maximum loan amount is $408,250.

USDA loans are only available to finance homes in rural communities, including many of the smaller suburbs of Portland. The USDA loan is a 100% loan and started requiring monthly mortgage insurance as of October 1, 2011. The cost of insurance is about 1/3 of the cost of FHA (just 1% up front as of 10/1/2016) so this is still a great deal. However, funds are not always available, so be sure to check with your Lender if you are looking to buy in one of these rural areas. There is also a maximum annual income limit for Buyers. Currently $84,550 for Portland Metro. Minimum credit score is 580 with conditions, otherwise expect 620.

HomePath loans are probably the best deal out there but it is only available on foreclosure properties owned by Fannie Mae (your buyer's agent will know who the property owner is). This loan requires 5% down which can be a gift, and has no upfront or monthly mortgage insurance which is what makes it such a great loan. The seller can pay up to 3.5% for closing costs but cannot pay for pre-paids such as property taxes and interest. This is a very important distinction between Fannie Mae and Freddie Mac owned properties and those owned by banks or individuals. This rule applies regardless of the loan type.

Conventional Loans

These are basically loans that are not FHA, VA, or USDA (government backed loans). Banks set the terms for the mortgage loans and offer them to the public directly and through mortgage lenders. Conventional loans are generally a better deal from a cost standpoint, but they require a larger down payment which has limits on gift funds. A 20% down payment is the best possible scenario, because you will receive a lower interest rate and will not have monthly mortgage insurance. Most loans with less than 20% down will have monthly mortgage insurance. The minimum down payment for a conventional loan is 3% and can be a gift but require high credit scores. Monthly mortgage insurance is often much lower on conventional loans than on FHA loans. The FICO Score to qualify was lowered to just 680 late in 2014. Mortgage insurance will be lower with a higher FICO score (unlike FHA which has one price for everyone).

Many banks offer some type of First-time Homebuyer loan that requires 3% or less for a down payment, and do not require monthly mortgage insurance. These loans have specific requirements the Buyer must meet before being eligible. Mortgage insurance requirements vary so be sure to ask about them.

Adjustable Rate Mortgage (ARM) Loans

If you expect to make more money in the next few years and want to buy a bigger home, you may be interested in an adjustable rate mortgage. The main difference between an adjustable rate mortgage and a fixed rate mortgage is that the interest rate will change at some point during the life of the loan along with your monthly payments.

While the interest will be capped, you will still be paying more each year that you own the home. This is true unless interest rates drop over an extended period of time. Most ARM interest rates cannot be increased more than 2.5 interest points per year, and up to 7 points for the life of the loan. FHA offers an ARM that can only increase 1% per year after being fixed for the first 5 years (5/1 ARM) with other favorable terms for the Buyer (don't forget the mortgage insurance issue). Conventional ARMs are often more favorable for the Bank than the Buyer, making FHA the better deal for ARMs.

These loans are good for those who want a larger home but can't qualify for the monthly payment at the current interest rate. Be careful not to overextend yourself. Buyers who used this type of loan a few years ago are in foreclosure today.

Balloon Mortgages

If you are only planning on living in your first home for a few years (usually five to seven), you could look into a balloon mortgage. These mortgages require that you pay them off in five to seven years (called a 5/25 or a 7/23). They have a lower starting interest rate than a 30-year loan, which is fixed for only 5-7 years.

If after the term of the mortgage has passed and you want to remain in the home, you will probably have to refinance. Some balloon mortgages convert to a fixed rate mortgage after the initial term but the interest rate is going to be high.

Only consider this mortgage if you are planning on moving after a certain amount of time or if you think you can pay the mortgage off or refinance in that amount of time. There is a fair amount of risk with this type of loan.

If you are Denied for a Loan

If you are turned down for a home loan, you will be notified as to the reasons why. If you know what the issue is you can work on fixing it, all of the reasons can be corrected.

Reasons for possible denial include:

- Poor credit or not enough credit
- Not enough money for down payment & closing costs
- Length of time at your job is too short
- Income level for the amount of loan requested
- Insufficient Liquid Assets
- Debit Ratio is too high

What Not to Do When Applying For A Home Loan

There are a few things you should not do after applying for a home loan:

- Buy a new car
- Begin a new job
- Buy new furniture and other large items using your credit cards
- Apply for credit of any kind
- Default on any other loans

All of these actions will cause your credit score to change, which will give lenders an inaccurate view of your spending habits and your overall credit score. If you take a job that pays less than you noted on your home loan application, your lender may not agree to grant you the loan.

If possible, do not begin a new job until you have moved into your home. Do not spend money on credit cards. The Lender will pull a second credit report right before closing to find out if you have purchased anything on credit. If you have, your loan could be denied after having been approved based on your changed financial situation. Buy furniture and other items using cash (if you don't need it for the down payment) or wait until you have signed the final contract and are a homeowner. Even a new credit inquiry on your report will require the file to be re-evaluated and possibly denied.

Increase Your Chances for Approval

There are a few ways to increase your chances for loan approval that will also help you determine what you will be able to afford each month:

- ***Pay Off Credit Cards***

If you are thinking about buying a home in the next few years, you should prepare by paying off those credit cards and only using them for emergencies. Do not cancel your existing cards since this may actually lower your credit score. By showing you have a zero balance on your credit cards, you will be showing lenders that you know how to use credit wisely and you have been paying your cards off on time.

- ***Always Pay Bills on Time***

  This includes your electric bill, rent, student loans, and other bills that you may have to pay each month. By creating a track record that can be traced, you will be showing lenders that you are a responsible person who deserves to have a home loan.

- **Save As Much Money as Possible**

  Make a commitment to save a certain amount every month. Look at your budget to determine where you can cut back on expenses. Maybe living in a cheaper apartment can get you into a home sooner. By all means DO NOT buy a new car. I can't tell you how many would be homeowners were not able to buy a house because they have huge monthly car payments that they can't get out of. Here are some ideas on How to Save for a Down payment.

Additional Fees for Home Loans

You may notice that you must pay small fees throughout your home buying experience. It seems that every piece of paper you sign, file, or request will cost you some money. Here is a list of fees that you may be charged:

- Credit report fee (approx. $20 per person)
- Loan discount fee (Buys down the interest rate-optional)
- Appraisal fee (approx. $700.)
- Loan origination fee (approx. $1100. With many mortgage brokers)**
- Application/Processing fee ($300-$500)**
  Underwriting fee ($300-$500). These 2-3 fees are usually under $1000 total**
- Mortgage insurance application fee (based on loan amt and down payment)
- Hazard/ Fire insurance 1st year premium (Buyer controls)
- Escrow Fee (approx $650)
- Title insurance (based on sales price)
- Miscellaneous Fees (approx $400.)
- Funding Fee for FHA, HomePath & USDA (2-3% can be added to loan)

** Some lenders like Umpqua Bank and Guild Mortgage charge a total of just $1095. with no other add-on fees

All of these fees will be disclosed to you up front when you first apply for the loan. The document is called a Good Faith Estimate or a GFI for short. Your costs will not vary more than a few hundred dollars from the number quoted at the time of application. These costs do not include pre-paid interest and pre-paid property taxes, which can add up to substantial amounts depending on the time of year and the day of the month you close. Your lender will explain all of this to you.

Financing Terms

As you are going through the home loan process, you will run across a few terms that you will not understand. You should ask your lender to explain these terms so that you will fully understand the type of loan you are applying for, the lenders policies, and other information that will be important throughout the life of the loan. Here are some common terms you may encounter:

- **Closing Costs**
  All the lender and third party costs associated with getting a mortgage loan. Prepaids are often included with the closing costs but stated separately.

- ***Debt to Income Ratio***

  This is one way that lenders determine if you can afford your monthly mortgage payments based on your current income. *The lower your debt ratio is the better*. Your total monthly mortgage payment (PITI) should not exceed 31% of your gross monthly income. Your 'Back End Debt Ratio' is computed by adding all your minimum monthly payments (car, VISA, student loans, etc) to your PITI. This number should not exceed approximately 46% of your gross monthly income. The allowable back end ratio will vary slightly with different types of loans.

  This is why not buying a car or charging on your credit cards is so important when buying a home. The less debt you have, the lower your debt ratio will be.

- ***Down payment***

  The amount of money required from the Buyer by the lender to obtain a mortgage loan. Different loans require different amounts of down payment. The down payment does not include closing costs. Some loans require all of the down payment to be the buyers' funds while others will allow gift funds.

- **Earnest Money Deposit**

  Money paid to the Seller by the Buyer at the time of contract signing. This deposit is held by escrow until closing and becomes part of the down payment. In some situations, the earnest money can be forfeited to the Seller if the buyer backs out at the last minute.

- **Escrow/Title Company**

  The words Escrow and Title are used interchangeably in Oregon. The Title Company (First American, Fidelity National etc) provide the title insurance for the transaction AND the escrow service. The escrow service, includes holding the earnest money deposit and performing the actual accounting for the transaction. Escrow will not close a purchase transaction until everything is in perfect order. The final closing statement will list all costs associated with the purchase and the pro-rates for property taxes and pre-paid interest.

- **Equity**
  The difference between what the property is worth and what you owe. This changes as the market fluctuates.

- **Foreclosure**
  The legal process used when the lender forces the sale of a property when a borrower fails to meet the terms of the mortgage. A foreclosure is also a 'Bank Owned' property from a Buyers perspective.

- **Closing Cost Estimate (formerly Good Faith Estimate)**
  This document is provided to you at the time of loan application and lists all of the costs associated with the purchase of a home. This is also the document you would use to compare offer from different Lenders.

- **Liabilities**
  These are your monthly payment obligations for credit cards, auto loans, student loans or any other installment loan. It does not include monthly expenses such as rent, utilities, food etc.

- **LTV Loan to Value**
  Lenders use this ratio to determine the amount of equity you have at the time the loan is made. This ratio also determines if mortgage insurance will be required as part of the monthly payment. Value is determined by the appraised value or the actual sales price whichever is lower. The loan amount is determined by the size of your down payment. To avoid

mortgage insurance, you must have an 80% LTV. The amount of the loan can only total 80% of the appraised value. (20% down payment). The lower the LTV the better.

- **Mortgage**

  This is the name used for a home loan. Technically in Oregon the lender will secure their interest in the property with a Deed of Trust.

- ***Mortgage Broker***

  A mortgage broker is a person who does not work for a bank, but rather works on commission to match homebuyers with many lenders that may not be in your area. I prefer mortgage brokers over working directly with the big banks. Credit Unions are an excellent source of mortgage loans.

- **Points**
  A point is a fee paid to the lender at closing. Each point is equal to 1 percent of the loan amount. Most often 1 point is charged for the typical home loan. When an interest rate is quoted as PAR, it means a 1 percent point is being charged. A loan with no points will have a higher interest rate. A loan with higher points will have a lower interest rate.

- **Pre-Paids**
  Pre-paids are most commonly property taxes, mortgage interest and homeowners' insurance which are collected up front to fund the escrow account. Depending on the time of year you purchase, property tax prorates will most likely be in the thousands.

- **PITI**
  Principal, Interest, Taxes and Insurance. The insurance refers to the monthly homeowners' insurance and the monthly mortgage insurance if there is any. The PITI is the total monthly payment amount.

- ***Private Mortgage Insurance (PMI)***

  If you cannot afford to put down 20% on a home, you will be required to pay mortgage insurance. The lender will buy a mortgage insurance policy on your behalf which insures the lender against any possible default on your part. If you default, the insurance will pay the lender for money they lose in the foreclosure. The insurance premium is monthly and will added to your total mortgage payment. On a $200K loan with 5% down, the monthly mortgage insurance amount will be approx. $120. This has a big impact on your debt ratio and the amount you can afford to spend on a home. It is possible for the lender to approve a loan and be unable to find a mortgage insurance company willing to insure the loan. In this situation you will be denied for the loan. An FHA loan will also require an up-front mortgage premium which is currently 1.75% of the loan amount.

- **Underwriter**

  This is the person that makes the final decision about approving your loan. You and your lender will never talk directly to this person, but what they say goes. Don't bother arguing with their requests; simply give them what they want if you want to get a loan.
  .
- **W-2**
  An IRS form provided to you every January which summarizes how much money you made during the previous year and how much was withheld from your paycheck for state and federal taxes.

Chapter 4 – Finding A Buyer's Agent

If you are like many people, chances are that you've looked around different neighborhoods, saw a few homes that were for sale, maybe visited an open house or two, and then felt stuck.

What is the next step? Approach the homeowner with a potential offer? **Never.** Visit a realtor for more information and help with the purchase? **Always.**

In Oregon the listing Agent works for the Seller and is legally committed to getting the best possible price for the home. After all, the Seller is paying the commission. This is clearly laid out in both state law and in the mandatory "Agency Disclosure" provided to all potential clients by Realtors in Oregon.

Likewise, a Buyer should work with an Agent that is fully committed to getting them the best possible price and terms. That is why I firmly believe that all real estate transactions should have two real estate Agents, one representing the Seller and the other representing the Buyer.

Exclusive Buyer's Agent

An Exclusive Buyer's Agent like me and my team, specializes in the buying side of real estate. We have advanced certifications and training in negotiation, finance, foreclosures, green building and current market conditions. We never represent the Seller, so there is never a conflict of interest. It's always about the Buyer.

Wealth Of Knowledge

When you choose to work with a Buyer's Agent, what you get is their many years of experience. Your Agent will be very knowledgeable about negotiating the right price for your new home, they will be able to help you decide where you want to live, and they will be able to guide you in buying or walking away from any property you are not sure about. This is why it is so important to talk with your Agent and ask as many questions as you can before buying a home.

Peace Of Mind

The bottom line is that as a Buyer, a Buyer's Agent is the best resource when it comes to finding and making an offer on a home. While a Seller's Agent will be able to tell you the basics about a home, they are still working for the homeowner.

Survey Neighborhoods

Another advantage to hiring an Agent is that you will not have to do as much legwork in the beginning. You may have a few neighborhoods in mind, but you will be able to leave it to your Agent to find homes for sale and setting up appointments to see them. Agents spend most of their time doing research and leg work so you don't have to.

Choosing A Buyer's Agent

Always hire an Exclusive Buyer's Agent if you can. That way you know they are working for you as a Buyer and not the Seller. Since they don't list properties, they will not waste your time trying to show you their listing or their companies listings first. There is never a conflict of interest.

There are a two good ways to find a local Buyer's Agent. You can ask friends and family for referrals, or you can search online for local Buyer's Agents to interview.

Asking plenty of questions before you start looking at houses. It may seem like extra work, but I always suggest meeting for the first time at their office. You should be prepared with questions that will help you get to know this person. After all you are going to be spending a lot of time together. The five best questions to ask are:

1. Are you an exclusive Buyer's Agent?
2. How long have you been in the real estate business?
3. What certifications do you have?
4. Which neighborhoods are you the most familiar with?
5. What methods of communication do you use?

Once you have asked these questions, you should be looking for honest and complete answers, good communication, and real estate knowledge.

Most Buyer's Agents will ask you to sign a 'Buyer Broker Agreement'. This is nothing to be afraid of. In simple terms, the agreement is a commitment to work exclusively with one Agent. A real estate Agent does not get paid for the time they invest in helping you find a home until the transaction is closed. They invest their time in advance of being paid and ask for a commitment in return.

How do Buyer's Agents get paid? 99% of the time, when you purchase a property listed in the MLS, the Buyer's Agent's commission is paid by the Seller as part of the standard agreement between the Brokerage Company and the MLS service all Agents belong to. If you choose to purchase a FSBO, then the commission is your responsibility unless the Seller agrees to pay it in advance.

All Agents have access to the same inventory, so there is no benefit to you for working with multiple Agents. Find one that you feel comfortable with and stick with her.

You should also pay attention to:

- How well your realtor listens to what you are looking for
- How well they understand current real estate law
- How many other clients they are currently working with
- How often they communicate with you on the phone or email

In the end, you will have to be the judge of the Buyer's Agent. If they know what they are talking about, can find out the information you need quickly, and are willing to take the time to listen to what you need, then you should work very well with them.

During your search for a real estate Agent, you will find a variety of Agents that will want to work with you. These include:

Experienced Agents vs. New Agents

This is an age-old debate that should be addressed. While an experienced Agent may have sold more homes and earned more commissions, new Agents can be just as helpful and need to get some sales under their belt, which may prompt them to work harder for you.

While you should ask about their experience, you should take into consideration other traits such as the ability to listen and the ability to only show you homes in your price range.

There are experienced Agents out there who will make your home purchase a pleasant and easy transaction. Experienced Agents may know more about different neighborhoods, and often time know the listing Agent which can be a plus during negotiations.

Pushy Agents

Unfortunately, you will meet real estate Agents that will want to sell you more home than you need. In an effort to earn larger commissions or to sell those properties that are more difficult, many Agents will try this tactic.

This is where you will need to stand firm. You do not want to waste your time looking at homes that are beyond your price range unless you can find a way to lower the price.

While looking at possible homes is exciting, this will not last long as you will grow weary of spending all of your available time looking at homes you cannot afford to buy. If an Agent keeps showing you homes that are out of your price range, then you should consider finding another Agent.

Part Time Agents

Part time real estate Agents are those Agents who show you a few homes and then disappear or take days rather than hours to call you back. These Agents may have other jobs or are 'semi-retired'. You need an Agent that works full time and is available during regular business hours in addition to some evenings and weekends. No one can work 24/7, but being available comes with the job.

Hard Working Agents

These are the best Agents to find when you are buying your first home. If you find an Agent like this one, do not lose them. These are the Agents that will follow every lead, pass your wants and needs to another Agent, and try their best to find you a home. You should expect to see a handful of homes when working with an Agent like this one.

Now that you know more about what to look for in a real estate Agent, you should feel a little more comfortable about working with one. We are an invaluable source of information when you want to know more about homes, neighborhoods, and other questions about the communities you are looking at.

When looking at homes with your real estate Agent, you should ask questions about the home, the neighborhood, the city or town, and any other questions you need to know to make an informed decision. Part of your real estate Agents job is to research homes and neighborhoods so that they can answer questions that may come up. They may not immediately know the answer but know where to find it and can get back to you.

Check references. May Buyer Agents collect reviews on www.Zillow.com and other websites.

Chapter 5 - Shopping for Homes

Once you have found a Realtor you are comfortable with, you will want to make the most of your time when house hunting. Talk to your Buyer’s Agent about what you are looking for and she will help narrow the search and save everyone some time. Most Agents will send you listings via email in advance of showing you properties to give you a chance to pick your favorites. I use email to ‘pre-shop’ homes and save time.

New Homes vs. Older Homes

Older homes can be more affordable; however, you may also be faced with costly repairs, such as replacing old or aging equipment. The mechanical systems and roof are usually replaced every 20-25 years. So be sure to find out what replacements have been made when looking at an older home.

On the other hand, older homes can make for great starter houses, in markets like Portland, older homes in the suburbs generally have larger lots. In the urban areas, older homes have far more character than their newer counterparts, and are in established neighborhoods. This new website show how far you are from shopping and other conveniences. (www.walkscore.com)

In addition, many people prefer mature properties because of the history surrounding the property, as well as existing vegetation, trees, and greenery, which provides privacy, while often giving Buyers easy access into town.

But there are many pro’s and con’s to both a new and older home and it’s important that you fully understand everything about the properties that you are considering. Get as much history on the property as possible.

Ask your Buyer’s Agent for information about the home, talk to neighbors, check out the sale history, and find out about the Seller’s motivation.

Reviewing the history of sale transactions on a home can often give you a good idea as to whether there were problems with the property, especially if it’s been sold multiple times over a short period of time.

Also keep in mind that new homes include a warranty, protecting you from unforeseen costs in repairs (such as roofing or flooring), while older homes will typically be sold ‘As Is’ but may include a 1-year Home Maintenance Contract.

When purchasing any home, you want to make sure that you pay an inspection company to thoroughly inspect the property, including roofing, heating, electrical outlets, and whether the property is up to code including the type of wiring found throughout the property. Also a sewer scope is highly recommended ($120.).

While it's important to have a home inspection on both new and older homes, if the property is aged, you will want to make sure the inspection includes elements that may not be typically included in an inspection process for a newer home.

Moving into your new home should be an exciting and memorable time in your life, and if you really give yourself enough time to evaluate different properties, and you keep an open mind with both newer and older homes, you'll be in a better position to get the most 'bang for your buck', while ending up with a home that you are happy with for years to come.

New Construction

You may have noticed the housing market has also caused a slowdown in new construction. In the Portland Oregon area, new construction has always been determined by the amount of available land to develop. With an Urban Growth Boundary developable land has always been a hot commodity. It is still possible to find new homes, but you must be flexible as to the location. Prices are not significantly higher than existing homes, so this could be a good choice.

Important Considerations:

- New homes come with a one-year warranty
- The overall cost of operating is less because of better insulation and more efficient appliances and furnaces
- Some lenders offer a lower interest rate on new homes
- Construction techniques are greener
- Most new homes do not come with full landscaping or fences
- New homes require window coverings and other costs

Since the housing slump is over, you should consider making a bid soon after finding the home of your dreams. Waiting (even one day) will often end up costing your more money.

Buying Foreclosures

When looking for a home, you should consider looking at homes that are bank owned (foreclosure). Bank owned properties are often good deals because the banks that hold the titles, want to unload these homes quickly, so that they do not lose more money than necessary. Most foreclosures are in really good condition. Some banks are having foreclosures professionally cleaned, painted and carpeted prior to listing them for sale. Banks do not want to make any repairs to the homes they own so be aware that you are buying it AS-IS. In some cases banks will make 'lender required repairs' but not always. If you plan to buy a foreclosure it is very important to find one that is in good condition or you won't be able to get a loan for it. The cheap homes have issues and can usually only be purchased with cash. Don't waste your time and money trying to buy a foreclosure that will not qualify for a loan. Buying a foreclosure can take a week or two longer to close because of the slower response time from banks but that is nothing to worry about. Your Agent can make sure things happen as quickly as possible. There are very few foreclosures in the Portland market because of recent appreciation in home values.

Buying a home at a foreclosure auction (legal action at courthouse steps) is for investors and professionals not the average Buyer. Without getting into the title and legal issues, most people don't realize that the successful bidder has four hours to come up with all the cash to purchase the home. It is not possible to buy any other way.

Buying Short Sales

Short sales did affect the real estate market more than any other single factor during the recession but are almost gone now that the market has improved. Basically, a short sale is when a Seller is offering the property for sale at a price that is less than what he owes the bank. Obviously, the bank has to agree to the sale and agree to take a loss on the loan (something they don't like to do). Sometimes there are two banks involved because the Seller had a second mortgage or credit-line. In that case both banks must agree to the sale. There are almost no short sales in the Portland market.

Highlights of a Short Sale:

- Seller must meet bank's qualifications for personal financial history and ability to pay. SS's are not approved simply because the Seller owes more than the house is worth.
- Must be Seller's primary residence
- Banks can take months to decide on a short sale
- Only 30% of all short sale offers actually close
- Banks can change their mind up to the day of closing
- The home could be foreclosed even with an offer
- Seller can accept any sales price but the bank gets the final say
- Sold as-is, Sellers and banks will not make any repairs
- Requires an experienced short sale listing Agent

One of the most important issues in buying a short sale is the experience level of the listing Agent in handling short sale transactions. This is a highly-specialized field and can only be successful when the right people are working the transaction. If a professional negotiator is hired to facilitate the transaction, the odds of success increase substantially. Not all negotiators are created equal, so hiring the right firm is also very important. Even then, there are no guarantees with short sales. A short sale will take at least six months and only 30% of actually close. If you are ready to buy a home this is not what you want.

The APPENDIX contains a copy of the Short Sale Addendum and the Short Sale Disclosure for the State of Oregon.

Buying at Auction

Buying at auction refers to properties that are being auctioned for sale by real estate firms. This is not a foreclosure auction, which is a completely different situation. Auctions for local properties are held on-line, in person, or a combination of the two. Most of the properties have lockboxes so your Agent can show them to you just like any other property. Auctions do not always pay the Buyers Agent commission, so this is one situation where you may be responsible for the commission yourself.

The 'Terms of the Auction' will vary depending on the real estate auction company, so it is very important to read these before you seriously consider bidding on a property. Examples of possible terms are:

1. Buyer Premium. The premium is usually between 3-5% and will be added to the final sales price of the winning bid. If the winning bid is $100,000 the price you will pay is $105,000. Be sure you keep this in mind while bidding.
2. If you are the winning bidder you will be required to deposit between 5-10% of the purchase immediately. **This deposit is non-refundable**. You will also be signing the contract immediately, so it's important to read it in advance.
3. You are buying as-is, so you may want to have an inspection *prior* to bidding on the property. If you have an inspection after winning the bid (but before closing) and decide you no longer want the property, your only option is to walk away and forfeit your deposit.
4. You may get a loan for the purchase, but most contracts require you to close in 30 days and have a per-day penalty of around $150 for every day beyond 30. You must have your financing ready to go. If you are not approved for the loan or the property doesn't qualify for the loan, you will lose your deposit. Unless the Seller cannot provide a clear title, the Buyer assumes all risk. If the Seller cannot provide a clear title, the deposit will be refunded.
5. Determining who pays what closing costs will be stated in the terms.

Although there are some risks involved, I believe this is the best way to purchase a home at an amazingly low price. Most auctions are 'absolute,' meaning they accept the highest bid regardless of how low it is.

Properties being auctioned can often be found on the internet. New sites are showing up all the time. This opens the opportunity for scams so be sure to do your research and never give someone an earnest money deposit unless you are sure they are legitimate. Whenever possible, earnest money should be deposited into an escrow account where it is held until the transaction legally closes. A scammer will never agree to an escrow account which should raise a red flag.

Lease/Purchase Option

Berkshire Hathaway now offers a program through HomePartners that allows qualified buyers to lease a home with the option to purchase it at a later date. A buyer would apply for the lease with HomePartners ($75. Fee) and once approved can shop for any home currently offered for sale in the MLS with a few exceptions. The only commitment is to a one year lease, you are not obligated to purchase the home. More information can be found here.

This program is targeted at folks that are relocating and don't know where they want to live. Folks that can't qualify for a mortgage loan right now but want to take advantage of the appreciation in value. Or folks that can't find a rental in the neighborhood they want to live.

Start with a Wish List

Create a list to include Wants and Needs (understanding you won't get everything):

- Your price range (determined by loan preapproval)
- Number of bedrooms
- Number of bathrooms
- Size of lot and backyard
- Basement (finished or unfinished)
- Age of mechanical aspects and cost of operation
- Central heat and air conditioning
- Garage
- Neighborhood
- Green features

Giving your Buyer's Agent a list of your preferences will allow them to spend more time researching homes that fit the criteria. You should list these amenities from greatest to least importance because no home is perfect and you will not get everything you want or need. Let your Agent know that you are flexible, but that you really want to concentrate on certain items when looking for a home.

Viewing Homes

When looking at homes with your Agent, be sure to ask any questions you may have. While these questions may seem small, they may be important to your happiness. Common questions people ask their Agents are:

- How old is the home?
- What can you tell me about the neighborhood?
- What kinds of renovations have been done to the home?
- How old is the plumbing?
- What do they think of the overall condition?
- What kinds of flooring materials are in the home?
- How old are the windows?

While your Agent may answer some of these questions before you ask them, you should ask any questions that may influence your decision to buy a home. After all, it is their job to educate you along the way. If you don't want to put too much work into fixing up the home, let your Agent know you want a 'move-in ready' home.

Taking Notes and Pictures

One of the best ways to remember the homes you have seen is to bring your camera and take pictures. Only take pictures of the homes you really like. There is no point in collecting information on homes that you would never purchase.

Many times, after looking at a few houses, you will forget how big the kitchen in home number two was in comparison to home number five. Having pictures will remind you of these details. Take photos of your favorite rooms as well as your areas of concern. It's easy to forget the shortcomings when you are in love with the kitchen.

Narrowing Down Your Choices

From the very beginning, you should keep a running list of your three favorite homes. When you find a new home you love, drop one off the list. After a few weeks of viewing homes that fit the criteria you are looking for, you should be able to choose one from your list. Sometimes, the first home you look at is the one you buy. Don't be concerned if you find the perfect home after just two or three showing appointments. A good Buyer's Agent will be able to quickly read your likes and dislikes and will only show you homes that meet your criteria. There is no reason to look at homes you won't like simply for the sake of seeing more homes.

Many times, if a Buyer likes the neighborhood but not the home they were shown, they will want to see other homes in the neighborhood that are for sale. You should ask to see all of the homes available in your price range in a neighborhood that you like. We offer many automated tools that will text you anytime a new home comes on the market in your favorite areas.

If you are still not falling in love with a home, you may need to change the criteria you are working with. This usually means the price (if possible), the size, or the location. If you can't afford the house you want in the neighborhood you want, you will either need settle for a smaller house, one that needs work, or a different neighborhood. This is where an experienced Buyer's Agent will be able to help by suggesting other neighborhoods that offer similar features for you to consider.

Chapter 6 - Making an Offer

Once you have found a home that meets your standards, you should make an offer. Your Agent can draw up the paperwork and present it to the Seller or Seller's Agent before another offer comes in. Doing this can avoid competition and result in a better deal. Depending on who 'owns' the property the paperwork and requirements for an offer will vary. Most foreclosures require an earnest money check and proof of funds before submitting an offer. They also have their own 'Addendums' in addition to the standard Sales Agreement. Fannie Mae does the same but also requires all offers to be entered on-line. HUD homes require the most paperwork. An experience Buyers Agent know how to handle the differences and increases your chances of acceptance.

Don't be afraid if a counteroffer is presented – it is part of the process. The Seller has three choices with regards to your offer. He or she can accept, reject, or counter. If he or she doesn't accept the contract as written, chances are you will get a Seller's Counteroffer. A counteroffer is not always about price; it can be about a close date, an earnest money deposit, or several other terms.

If you don't like the Seller's counteroffer you can reject it and prepare a Buyers Counteroffer. While counteroffers are common, in our market it is not customary to do a lot of back and forth negotiating. Your Agent will be there to guide you along during this time. Ask all the questions necessary to make sure you understand everything you are signing.

There is plenty of information your Buyer's Agent can tell you about the homes you are interested in making an offer on. Listed below is most of the information that will be included in the property data sheet:

- The price of the home
- The age of the home and major components
- Any renovations that have been done
- Any other issues with the home (Seller's Disclosure)
- Property taxes
- Homeowner Association Dues (especially with condos)
- Schools
- Price that similar homes have recently sold for
- The median age of those who live in the neighborhood

Usually, if an Agent does not have the information you request on hand, he or she will be able to look it up back at the office.

You should be able to find out all the information you need to know to make an informed decision about buying a home. Sellers in Oregon are required by law to give you a Seller's Disclosure (see appendix), which contains information concerning prior repairs, damage, and the history of a home. This information is contained on the 'Seller's Disclosure' form. This form is usually provided to the Buyer after an offer has been accepted, but can sometimes be obtained prior to making an offer.

You can also do research of your own by using the Internet, which has become a wonderful tool to use when searching for a home. You can use sites like www.Zillow.com to find out information about the area and get a 'zestimate' of value. It's important to remember that Zillows margin of error in Portland Metro is currently 14%, so don't accept the 'zestimate' as fact. Another great website for homes located in the City limits of Portland is www.PortlandMaps.com. This site has a complete property tax history, crime stats, permit history, and so much more. You can research past events that have taken place in the neighborhood or the town where you want to live. Knowing a little history may prompt you to look elsewhere or encourage you to make an offer.

Other information Buyer's Agents can tell you include:

- Homeowner price reduction (your realtor can find out the history of the listing, including the time it's spent on market, price changes, or how much the Seller originally paid for the home)
- Prices of other homes in the area that are comparable to the one you are looking into buying, commonly called a CMA (Competitive Marketing Analysis)
- How quickly the owner wants or needs to sell their home
- How much the property taxes are and the tax assessed value

Your Agent is a person who should be well acquainted with the neighborhoods you are looking at when buying your first home. Don't be afraid to rely on their experience and advice. It is usually not helpful to ask a friend or a relative about what price to offer unless they have been involved in the entire shopping process with you. Otherwise, how could they possibly know what a particular home is worth?

In a Sellers' market, buyers are often competing with other buyers for the same property. In this situation, you will be forced to make an offer quickly and often over the asking price. How much over depends on the property. Rely on your Buyer's Agent to guide you. Portland is currently a Seller's Market.

Low Offers

In the current sellers' market, a 'low ball' offer is simply a waste of time except in very rare situations. When homes are selling with multiple offers and tens of thousands above asking price, a low offer doesn't work. Understanding the current market is critical to success.

Making the Right Offer

Making the right decision on what to offer when buying a home is not always easy. You and your Agent should be able to come up with a reasonable price. If you really want the house, don't get greedy. It's not worth losing your dream home over a couple-thousand dollars. I'm not suggesting that you overpay for a house either. You should be happy with paying a fair price and elated if you get it for a good price. Assuming you are receiving a home loan, the house will still have to appraise for the sales price.

It is a not common practice today to ask the Seller to pay for some of the Buyer's closing costs. Buyers like to do this because you don't have to come up with as much of your own money to buy. When Sellers evaluate an offer with 'Seller Paid Closing Costs' they look at the net sales price to determine if the offer is acceptable. If a home is listed at $326,000 and you make an offer of $326,000 with Seller paid closing costs of $6,000, you are actually making a net offer of $220,000, which is $6,000 less than the asking price. When Buyers offer less than the asking price, AND ask the Seller to pay some of their closing costs, they find that the Seller is not willing to do both. If a Seller is firm on his or her asking price, the Buyer may have to add the amount of Seller paid closing costs onto the offer price so the net to Seller is the full asking price (list price of $226,000 with $6,000 in Seller paid closing costs would equal an offer of $332,000). Be sure to read the section on appraisals and how this scenario fits in.

Dealing with Rejection

If the homeowner gives you a response in the form of a rejection, they may site the reason why in the paperwork. Common rejection reasons include: if your offer was too low, they had another offer, decided not to sell, or want to wait for a higher offer. At this point, you have to decide if you are willing to pay more or want to look for a different house. This is not a good time to let your ego make decisions for you; it's a negotiation, not a win-lose situation.

Negotiations with Sellers

Most people who sell their homes are also working with an Agent. This Agent is known as a Seller's Agent. If you choose not to hire a Buyer's Agent, you will be dealing with a Seller's Agent who is looking out for the Homeowner's interests, not yours.

Negotiating between Buyer and Seller will always take occur between the respective Agents. The Buyer and Seller will never negotiate face-to-face. In many cases, the Buyer never even meets the Seller.

Paperwork

When buying a home, a lot of paperwork that must be completed before the closing. By law, everything affecting the purchase transaction must be in writing. Your Buyer's Agent can email you copies of the most common documents so that you can read them prior to making an offer.

This paperwork can include:

- Sales Agreement (10-pages, see appendix)
- Disclosures: Sellers Disclosures Agency and Siding Disclosures
- Home inspection reports
- Preliminary title report
- Financing documents and disclosures

Filing out the paperwork is the responsibility of the Buyer's Agent. You should not tell them what to write, but rather explain your concerns so they can use the appropriate language to protect you. Some issues may require you to consult an Attorney who will work with your Agent.

In Oregon, all Real Estate Agents use the same 10-page Sales Agreement (and various addendums). Agents are very familiar with the contract language and are trained and licensed to complete the contracts. Due to this, attorneys are only used in special circumstances. Real Estate Attorneys are very familiar with the Oregon Sales Agreement and support its use.

Chapter 7 – Home Inspections and Repairs

Oregon law requires the Seller of residential real estate to provide the Buyer with a form called Seller's Property Disclosure Statement. This four-page document asks the Seller specific questions regarding the present and past condition of the property. By law, the Seller must disclose all known defects to the Buyer at the time an offer to purchase is made. While this form provides lots of great information, it does not take the place of a home inspection.

A home inspection will give you a chance to discover more about the home before you purchase it. Inspectors are looking for serious problems with the foundation, mold issues, underground tanks and structural/mechanical issues. In other words, they are looking for things that are not obvious when you viewed the home. You should be prepared to ask for repairs (structural and mechanical deficiencies), a reduced price, or walk away from the property. In most situations, repairs are successfully negotiated between Buyer and Seller.

Even though an inspection report may list 'maintenance items,' do not expect the Seller to do them. Homes are priced based on the current condition and the age of the property – the essence of the 'as-is' clause. This should be taken into consideration when you making an offer. If it will need paint in a couple of years, you can't expect the Seller to paint it now and still sell it to you at the same price. If the house had new paint, the price would reflect it. Your Buyer's Agent will guide you through this very important step. In the case of foreclosures, the banks will almost never do any repairs. It is still very important to have the home inspection so you have a clear idea of the condition of the home you are buying.

The Importance Of Home Inspections

The first step after entering a sales contract is to have the home professionally inspected. This is the most important step and will determine if you buy the house or not. A full-home inspection generally costs between $450-$650. It will cover the structural and mechanical systems along with a pest and dry rot inspection. Many of the biggest issues are found in the attic and crawl space. The inspectors I use typically have a 40-page report on the condition.

A sewer scope is always a good idea and costs $150. This is when a camera on the end of a long line is inserted into the sewer pipe so the house can be inspected all the way to the main line in the street. Often, tree roots can damage the line causing an expensive repair. If there is a problem, the Buyer wants to know before purchasing so that repair costs become the responsibility of the Seller.

Radon tests are also an option and cost about $160. Radon does exist in Portland so I always recommend that Buyers have this test done. If radon is found, it is not difficult to remediate and typically costs less than $2000. The Seller will be responsible for this cost.

A tank locate is sometimes needed if we suspect that a home may have had an underground oil tank that serviced the oil furnace. We look for signs during the inspection and search city records. Many homes now have forced air gas heating systems but previously had oil forced air systems. The cost is $100.

Any home built prior to 1978 has the possibility of containing lead based paint. I don't see much point in testing for lead paint because you should always assume it is present in pre-1978 homes and take the necessary precautions.

If you buy on acreage, Lenders require septic tank and drain field tests. Also on their list of requirements are bacteria, nitrate, and arsenic testing of the well water. Although not required, it is always a good idea to have the well 'flow tested' to determine the amount of water pressure.

A Thorough Home Inspection Will Include Checking the Following:

- Electrical systems
- Heating and cooling systems
- Foundation
- Siding
- Structural elements
- Roof and chimney
- Insulation
- Doors and windows
- Plumbing leaks
- Crawl space

The standard sales contract in Oregon is contingent upon a satisfactory home inspection. In Oregon, you usually have 10 business days to have the inspections completed AND negotiate repairs with the Seller. This can involve either the Seller having the repairs made or agree to reduce the price so the Buyer can have the repairs completed after closing. If you do not come to an agreement, you may terminate and receive your earnest money back.

There are situations when you should walk away and not purchase. Most of them have to do with structural issues and water. Cross that bridge when you come to it and don't overreact to items found. Every house has issues, so if you expect perfect, buying a new construction is your best option; even then, perfect doesn't exist. Keep in mind that home inspections are not going to list cosmetic issues because the Seller won't fix them. If you don't like the condition of the home, don't buy it.

Here is a link to the Oregon Property Buyers Advisory, which contains information on all the possible issues that may come up in an inspection.

Most Lenders will not ask to see a copy of the inspection report or the repair addendum. It is a good idea not to give it to them. If you do, the Lender will be the one to decide what repairs must be made when this decision should be left to you.

A re-inspect of any repairs made by the Seller is often a good idea. The cost is about $100 and the inspector will determine if the repairs were done correctly. I have had many homes fail a re-inspect. In some situations, a copy of a repair invoice is sufficient proof of a repair.

Home Warranties

If you are buying an older home, you may want to purchase a home warranty that will cover repairs that will have to be made during your first year of ownership. The name warranty is misleading because it is actually a maintenance contract for major appliances, plumbing, and electrical (additional items can be covered at an additional cost).

While a home inspection will catch any immediate repairs, no one can foresee an oven falling apart or a furnace burning out. Since you may not have a lot of extra money left over after purchasing, most policies will cost around $500. Coverage will begin the day of your closing and will last for a year. If you need to have an appliance repaired, you must pay a small co-pay ($75) at the time of the repair. The Buyer or the Seller can pay for the home warranty. Often, the Seller will offer a home warranty as part of the deal.

Chapter 8 – Appraisal

Every mortgage loan requires an appraisal. An appraisal is performed by a Licensed Appraiser hired by the Lender. Their job is to independently determine the current market value of a property. They are considered the ‘experts’ in determining the current market value, not the Real Estate Agents. The Appraiser is the ‘eyes’ of the Lender since they will never physically see the property they are loaning money on.

Appraisers are selected at random using an Appraisal Management Company (AMC). The Lender hires the AMC and the AMC hires the Appraiser. This is a new process that was mandated as part of the mortgage fraud, which happened during the real estate boom. An Appraiser does get a copy of the Sales Agreement prior to visiting the property. In most situations, the Appraiser is simply validating the sales price and the market value comes in right at the sales price.

How Home Appraisals Can Affect Your Home Loan

Unfortunately, a home appraisal can affect the status of your loan. If the home appraisal comes in under the selling price of the home, most Lenders will not only lend based on the appraised value not the sales price. This can be a tricky issue but a good Buyers Agent will work it out.
The following options are available:

The Homeowner Reduces the Selling Price

Depending on the appraised value in comparison to the asking price, some Homeowners will be willing to lower the price to match the appraisal. This becomes more complicated if closing costs have been added onto the sales price. In this situation, the Seller agrees to accept a ‘net sales price,’ but agrees to allow the Buyer to add the closing costs on top of that amount. An offer from a Buyer of $326,000 (full price) with Seller paid closing costs of $6,000 equals a net offer to the Seller of $320,000. The Seller has agreed to sell as long as he or she nets $320,000. If the appraisal comes in at $323,000, it is still above the Sellers $320,000 net, but is not high enough to cover the full $6,000 in closing costs the Buyer added on.

In this situation, Buyer and Seller must negotiate who is going to cover the remaining $3,000. Sellers are usually reluctant to reduce their net sales price (after all, the house did appraise for $3,000 more than the Seller is netting). So, Buyers may have to come up with an additional $3,000 to cover the closing costs. If they can’t come to an agreement or the Buyer doesn’t have the money, the transaction could be terminated. Your Buyer’s Agent will assist in this situation.

A Higher Down Payment

Most Lenders will grant you the loan if you agree to pay the difference between the sales price and the appraisal. A Buyer must have the additional cash on hand and really want this particular home to agree to pay more than market value as determined by the appraisal.

Negotiate with the Seller for a sales price that is in the middle where both Buyer and Seller pay part of the difference.

Dispute the Appraisal

This is usually not worth the effort in today's lending market. An FHA appraisal stands for 6 months, which means a future FHA Buyer will still be faced with a low appraisal. In this situation, a Seller may have no option but to lower his or her price to match the appraisal. This is not advised because it is almost impossible to do it and still close on time. If a Buyer cannot close on time, he is in breach of contract and the Seller can terminate and sell the home to someone else.

Chapter 9 - The Closing Process

Once the repairs have been completed and re-inspected there is nothing more to do with the home itself. The rest of the time will be spent meeting all of the financing requirements (and there will be many). Escrow is responsible for insuring clear title to the property and arranging for the pay off of all of the Seller's debt. Escrow will also confirm that you have Homeowners insurance in place prior to closing.

Utilities are handled outside of closing. You simply call all the utility companies and give them the closing date for transferring the billing.

Closing in Oregon takes place in the office of the Escrow/Title Company and is conducted by the Escrow Officer who has been working your file from the beginning. Your Buyer's Agent will be present along with your Lender on occasion. This is not a family affair and you should leave your children and relatives at home. The entire signing usually takes just under an hour.

The document package for a loan is usually emailed to the Escrow Officer after your Lender has confirmed that you have met all of their requirements. **NOTE**: The Lender will pull a second credit report before preparing final loan documents to confirm that you have not purchased anything on credit since the time you applied for the loan (this is a Fannie Mae requirement). If your credit report differs from the report pulled at the beginning of the loan application process, your file will be sent back to underwriting for a re-approval, *even if you have already been approved.* This creates a *minimum* delay of three days.

Most loan document packages are fairly standard and contain a number of duplicate disclosures. The two most important documents are the Promissory Note and the Trust Deed, which are standard forms with 'fill in the blank' details. It is impossible for you to read the entire loan package, so don't try. The Escrow Agent will give you a summary of what each document contains and you will either sign or initial almost every page. Except in the rare case of a typo on the Promissory Note or Trust Deed, you do not have the option to make any changes or comments. You can sign the documents as presented and receive the loan or you do not buy a house. You will leave escrow with a copy of everything you signed and can review them prior to recording the next day if you choose.

Once escrow receives the loan documents they will spend about four hours to work up the final closing statement, which is the financial accounting for the transaction. This statement will start with the sales price, then deduct any earnest money deposit you made, the amount of your new mortgage loan, and Seller paid closing costs. The next step is to add all of the closing costs charged by the Lender and the escrow/title company (found on your original Good Faith Estimate). Lastly, an accounting of all the required pre-paids (property taxes, insurance, and mortgage interest) and prorates (Seller paid taxes) is done to come up with the amount of money you must bring to closing. This money can be wired directly to escrow or you can bring in a cashier's check at the time of signing. The amount of money you are required to bring in will be within a few hundred dollars of the number given to you by your Lender at the very beginning of the process. This is not a time of surprises.

At the closing, you should bring:

- Closing Cost Estimate from your Lender
- Signed paperwork you have received over the course of the deal
- Identification (driver's licenses or passport)
- Cashier's check for the required funds for to close

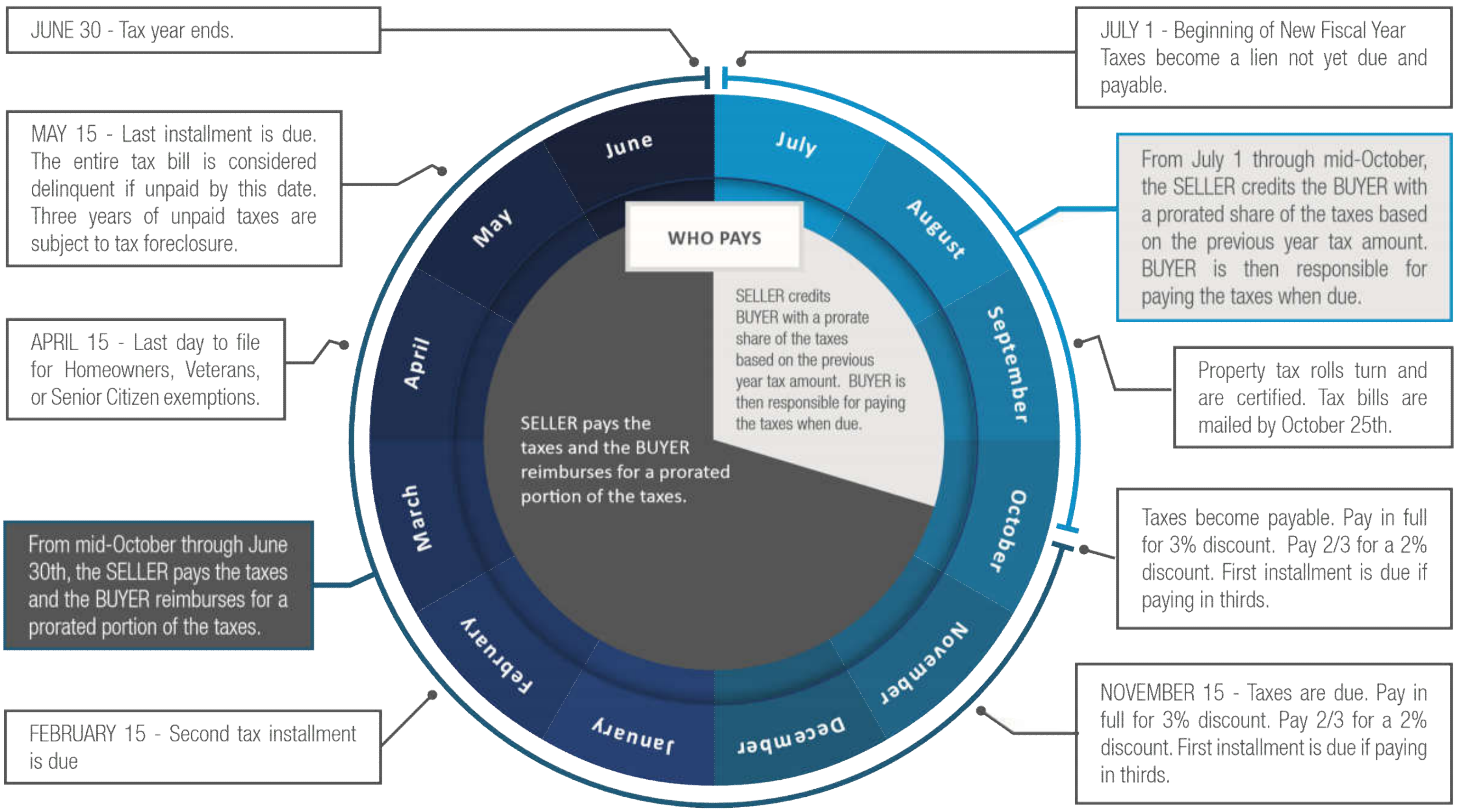
Once the documents have been signed and your money transferred to the escrow company, the escrow officer will return the entire loan package to the Lender for review and approval. This usually takes until the next business day and sometimes longer. If the Lender approves the documents, they will wire-transfer the proceeds of your loan to escrow. Escrow will then use those funds to pay off any liens against the property and will record the Trust Deed with the County making you the official owner. Escrow can only record if they have funds by about noon. Your Trust Deed is literally hand carried to the County Courthouse for recording. At that moment, you become the owner and are financially responsible for the home!

Conclusion

Purchasing a home has many complex steps and requires a lot of time, attention to detail, and focus. If it’s the right time for you to buy and you feel financially and mentally ready to make the commitment than I encourage you to start identifying your team to get started. My team of agents helps over 50 families a year move into their new home. As an Exclusive Buyers Agent, I can help you make the right decisions that save you time and money in the long run and get you the home you dream of. And I don’t cost you anything extra. It’s really a no-brainer to find and hire an agent that’s working only for you in the transaction. They will help you identify a lender that meets your needs and situation, an escrow team that will insure a smooth close, inspectors and contractors as required, and any other resources needed to get the job done.

PROPERTY TAX
ANNUAL CYCLE IN OREGON

IMPORTANT DATES, ASSESSMENT AND TAX RATES



PROPERTY ASSESSMENT TAX RATES

The appraisal process identifies taxable property and assigns a value to it. County assessors appraise most Oregon property and the property value is determined as of January 1 each year.

Property subject to taxation includes all privately owned real property (land, buildings, and fixed machinery and equipment), manufactured homes, and personal property used in a business. Items with no property tax include:

- Personal belongings and automobiles.
- Crops & orchards.
- Business inventories.
- Household furnishings.
- Certain intangible property.

Taxes are certified by the taxing districts and the county assessor places them on the tax roll each year in the Fall. Taxes are placed on the tax roll in the form of a rate per $1,000 of assessed value.

When a district certifies a dollar amount tax levy, such as a local option tax or bond tax, the assessor must calculate a tax rate. To compute a tax rate, the tax levy amount is divided by the taxable assessed value of the property in the district. This tax rate is placed on the individual property tax accounts in the district.

The total amount of tax placed on a property is computed by multiplying the property's assessed value by the combined tax rates of all the districts in which the property is located and then adding any assessments.