



# Charting Your Course to Home Ownership

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## Navigating Your Way to a New Home

### Renting vs. Owning: Which Is Better for You? — Pros and Cons

To many, home ownership is part of the American Dream. Buying a home to build equity is one of the reasons for purchasing a home rather than renting year after year. There are advantages to home ownership, but there are also disadvantages that need to be considered. The chart below provides a look at the pros and cons of renting versus owning.

	<b>Renting</b>	<b>Owning</b>
Starting Costs	Low: Security deposit	High: Downpayment Closing costs Repairs and upkeep
Monthly Costs	Few (total may be lower): Rent Utilities	Several: Mortgage note Upkeep Property taxes Insurance Utilities
Future Costs	May rise	Stable or predictable
Financial Incentives	May invest savings elsewhere	Opportunities for: Equity Appreciation Tax benefits
Sense of Ownership	None	A place of your own
Relocating Flexibility	Quick and easy	Difficult
Repairs and Maintenance	Few responsibilities Few costs	Many chores All costs
Risks of Default	Eviction Must move May affect credit	Foreclosure Loss of home Loss of investment Bad credit rating
Other Benefits	Possibility of recreational facilities with rental units (pool, playground, gym)	Automatic Savings (equity build up) Credit Worthiness – build credit history

Ask Yourself: *Do I really want to be a home owner?*

For each pair of statements, choose a or b.

- a. I would enjoy working around the house and yard.
- b. I would rather not spend my spare time tending a house and yard.

- a. Being in debt is something I can handle.
- b. The thought of being in long-term debt bothers me.

- a. I'm better off with a "forced" system of savings.
- b. I want the flexibility to save or spend as I please.

- a. I prefer a fairly stable type of investment.
- b. I want the chance for big, quick profits on my investments.

- a. I want to stay in one place and be a real part of a community.
- b. I can't be limited to one location for a long time.

If you chose any "b" statements, you should stop and carefully think through whether or not buying a home is really the best choice for you at this time. Do the advantages outweigh what you will need to sacrifice?

Adapted from: Reichel, C. (1998). *Your Path to Home Ownership*. Baton Rouge, La.: LSU AgCenter.

Additional References: *Home of My Own: Deciding to Buy a Home, Deciding to Own*, New Mexico State University, Retrieved from <http://www.nmhomeofmyown.com/decision/considerations/deciding.html> on April 12, 2008.

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# Charting Your Course to Home Ownership

## Your Housing Priorities

Few people can afford to have it all when choosing a home to buy or build. That's why it's important to give a lot of thought to your housing needs. What best suits your needs and desires? What type of home buyer are you? Deciding on your housing priorities before beginning to search for a home will make the hunt more productive and less confusing. Listing your priorities on paper will help you make sound decisions.

One of the first steps in buying a home is knowing what type of housing best suits your needs. Needs vary depending upon where we are in the family life stages. Some of our needs are based upon our perception of what we need.

### What is your Family Life Cycle Stage?

- **Young Single Adult** - Apartment living is common. Locations close to work or school and recreation.
- **Middle-age, Single Adult** - May prefer ownership, condominium seems preferable. Location near recreational facilities and work are important.
- **Single-Parent Family** - Single family homes. Location near work, shopping and schools is important.
- **Young Married Couple** - Mobility is high, rentals may be preferred. Locations close to work.
- **Expanding Family** - From first child until last child reaches adolescence. Single family home. Locations near shopping, schools, parks and recreation.
- **Launching Family** - When first child reaches adolescence until last child leaves. Single family home. Locations with best advantages for children.
- **Empty Nest/Active Retirement** - Children have left home, but couple not yet retired. Couples may want to maintain ties with neighbors and community and may want room for return visits of children.
- **Restricted Retirement** - Location near services is important; meals, transportation and medical.



## What Are Your Life Style Needs?

To determine your life style, think about the amount of time you or your family members allocate to various activities at home.

Rank these activities in order of importance for your family with one being the most important.

- \_\_\_\_\_ Social activities outside the household
- \_\_\_\_\_ Family activities
- \_\_\_\_\_ Individual activities (study, hobbies, work)
- \_\_\_\_\_ Private activities (dressing, bathing, personal time)
- \_\_\_\_\_ Household chores (cooking, laundry, cleaning, gardening)
- \_\_\_\_\_ Leisure activities (television, computer use, games, music)

## What Do You Want In A Home?

The following checklist may help you and your family to identify the features you want. Check any which apply.

### Location

- \_\_\_\_\_ City
- \_\_\_\_\_ Suburb
- \_\_\_\_\_ Country
- \_\_\_\_\_ On bus route
- \_\_\_\_\_ Near employment
- \_\_\_\_\_ Near schools or church
- \_\_\_\_\_ Other \_\_\_\_\_

### Style

- \_\_\_\_\_ 1 story
- \_\_\_\_\_ 2 story
- \_\_\_\_\_ Ranch
- \_\_\_\_\_ Split level
- \_\_\_\_\_ Contemporary
- \_\_\_\_\_ Other \_\_\_\_\_

### Type

- \_\_\_\_\_ Single family
- \_\_\_\_\_ Apartment
- \_\_\_\_\_ Townhouse
- \_\_\_\_\_ Condominium
- \_\_\_\_\_ Manufactured Home
- \_\_\_\_\_ Other \_\_\_\_\_

### Construction

- \_\_\_\_\_ Brick
- \_\_\_\_\_ Frame
- \_\_\_\_\_ Block
- \_\_\_\_\_ Other \_\_\_\_\_

### Age

- \_\_\_\_\_ New Construction
- \_\_\_\_\_ 1-3 years
- \_\_\_\_\_ 4-7 years
- \_\_\_\_\_ 7-10 years
- \_\_\_\_\_ 20 +

### Inside Features

- \_\_\_\_\_ Fireplace
- \_\_\_\_\_ Vault ceiling/high ceiling
- \_\_\_\_\_ Beamed ceiling
- \_\_\_\_\_ Built in vacuum

### Water/Sewer Systems

- \_\_\_\_\_ Municipal
- \_\_\_\_\_ Private

**Type of Heating/Cooling System**

- Electric
- Gas
- Oil
- Wood
- Central
- Room
- Zoned
- Other \_\_\_\_\_

**Square Footage**

- Under 1000
- 1000 - 1500
- 1500 - 2000
- 2000 - 2500
- 2500 - 3000
- 3000 +

**Bedrooms**

- 1 - 2
- 3 - 4
- 5 +
- Master

**Bathrooms**

- 1 - 1 1/2
- 2 - 2 1/2
- 3 +

**Other Rooms**

- Den/Family
- Library/office
- Laundry
- Dining

**Kitchen Features**

- Refrigerator
- Range/oven
- Microwave
- Disposal/compactor
- Pantry
- Dining area

**Outside Features**

- Deck/patio
- Off Street parking
- 1 car carport/garage
- 2 car carport/garage
- Fence
- Pool
- Security lighting
- Landscaping
- Other \_\_\_\_\_

**Other Considerations**

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Adapted from Hawks, Leona K. & McCoy, Tawnee. (2002). *Assessing Your Housing Needs*, Utah State University.

Retrieved from [http://extension.usu.edu/files/publications/factsheet/FL\\_HO-14.pdf](http://extension.usu.edu/files/publications/factsheet/FL_HO-14.pdf) on April 16, 2008.

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# Charting Your Course to Home Ownership

## Home Buyer's Guide: Rate the Space

Use this guide to help you evaluate homes or house plans and choose one with the features you need. This list includes some features and standards that make a home more convenient and comfortable.

**Rate each item as follows:** 3 = Good 2 = Fair 1 = Poor

### Traffic Paths

- \_\_\_\_\_ Front entry easy to find and reach from the street
- \_\_\_\_\_ Front (public) door doesn't expose your family within the living space
- \_\_\_\_\_ Family can move freely through the house without getting in each other's way
- \_\_\_\_\_ Kitchen entry is convenient for unloading groceries from the car (no more than 30 ft. from the car)
- \_\_\_\_\_ Hall space kept to a minimum
- \_\_\_\_\_ Halls wide enough for moving furniture (3.5 to 4 ft)

### Use of Space

- \_\_\_\_\_ Relative size (one to another) of social, work and private areas is right for your family
- \_\_\_\_\_ The public, private and work areas are separate enough for your family
- \_\_\_\_\_ Multiple-use rooms (living/dining, dining/study, guest/study/sewing/etc.) can adapt to changing needs through the years your family may live there

### Should a disability of a family member occur, does the house meet these needs?

- \_\_\_\_\_ One bedroom and bathroom on the entry level
- \_\_\_\_\_ Doors, especially into one bedroom and one bathroom, at least 32" wide
- \_\_\_\_\_ One bathroom large enough for wheelchair

### Social Spaces

- \_\_\_\_\_ House fits the kind of life your family lives
- \_\_\_\_\_ Enough space for family activities and children's play
- \_\_\_\_\_ Enough wall space for your TV, stereo, wall unit, etc.
- \_\_\_\_\_ Enough eating space for your family and usual guests
- \_\_\_\_\_ Dining areas convenient to the kitchen
- \_\_\_\_\_ Planned outdoor living area
- \_\_\_\_\_ Easy to reach from the kitchen
- \_\_\_\_\_ Offers some degree of privacy and protection
- \_\_\_\_\_ Has some shade
- \_\_\_\_\_ Can get to it from living area without going through kitchen



## Sleeping Areas

- \_\_\_\_\_ Rooms that will be shared are large enough for each to have own space
- \_\_\_\_\_ All bedrooms large enough for a double bed
- \_\_\_\_\_ Enough space for other needed furniture
- \_\_\_\_\_ Each bedroom can be reached without going through another room
- \_\_\_\_\_ At least 4 ft of rod space in the closets for each person
- \_\_\_\_\_ Closets placed between bedrooms to provide sound buffers
- \_\_\_\_\_ All bedrooms have private enough access to a bathroom
- \_\_\_\_\_ Separate sleeping area for genders (children)

## Bathrooms

- \_\_\_\_\_ Each bathroom large enough for the number of people who will use it
- \_\_\_\_\_ Enough storage for towels, grooming supplies and medicines
- \_\_\_\_\_ Plumbing in inside walls to prevent freezing
- \_\_\_\_\_ Lighting good for grooming
- \_\_\_\_\_ Exhaust fan vented to outdoors and heater built in

## Study Area

- \_\_\_\_\_ Enough space for each child to have own study area
- \_\_\_\_\_ Space for books, supplies and private “treasures” to be stored in the study area
- \_\_\_\_\_ Electrical outlets for lamps

## Kitchen

- \_\_\_\_\_ Adequate for the kinds of cooking you do
- \_\_\_\_\_ Work area not in the family traffic path
- \_\_\_\_\_ Total distance around the work triangle (from refrigerator to sink to range) is no less than 12 feet and no more than 24 feet
- \_\_\_\_\_ At least nine drawers at various places in the kitchen
- \_\_\_\_\_ Counter surface on both sides of range and sink and on the latch side of refrigerator

- \_\_\_\_\_ At least 10 feet of cabinet storage (not including sink cabinet)
- \_\_\_\_\_ Enough counter space for work space and your small appliances
- \_\_\_\_\_ Good lighting
- \_\_\_\_\_ Exhaust fan vented to outdoors

## Utility Area

- \_\_\_\_\_ Laundry equipment in convenient space
- \_\_\_\_\_ Utility area large enough for family needs (ironing, storage, freezer, etc.)
- \_\_\_\_\_ Clothes dryer vented to outdoors
- \_\_\_\_\_ Food freezer convenient to the kitchen

## Storage

- \_\_\_\_\_ Closet near entry for coats and umbrellas
- \_\_\_\_\_ Storage space is where it will be needed in living areas, halls, etc.
- \_\_\_\_\_ Storage space flexible enough to meet changing family needs
- \_\_\_\_\_ Suitable and enough outside storage for mower, tools, bikes, etc.

## Enough built-in storage or space for furniture to store your families:

- \_\_\_\_\_ Bed and table linens
- \_\_\_\_\_ Cleaning equipment
- \_\_\_\_\_ Out-of-season clothes
- \_\_\_\_\_ Seasonal items
- \_\_\_\_\_ Toys, hobbies, games
- \_\_\_\_\_ Books, photos, CDs, etc.
- \_\_\_\_\_ Household mail, records, files, etc.

## Other items important to you and your family (List them)

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## Doors and Windows

- \_\_\_\_\_ Doors can open fully without being in the way of furniture or other doors
- \_\_\_\_\_ All doors located to avoid diagonal traffic paths across rooms
- \_\_\_\_\_ Outside doors protected from rain
- \_\_\_\_\_ Doors wide enough for furniture to fit through
- \_\_\_\_\_ Outside doors solid and hinged rather than hollow-core or sliding (for security)
- \_\_\_\_\_ Enough window area for natural ventilation and daylight
- \_\_\_\_\_ Window areas for natural ventilation and daylight
- \_\_\_\_\_ The largest window areas are on the south and north (for comfort and energy savings)
- \_\_\_\_\_ Windows large and low enough for fire escape

## Exterior Design

- \_\_\_\_\_ House looks attractive to your family
- \_\_\_\_\_ Style of architecture suitable for the lot and neighborhood
- \_\_\_\_\_ Roof style allows for enough attic ventilation, insulation and storage

## Hazard Resistant Features

- \_\_\_\_\_ Elevated for floods
- \_\_\_\_\_ Meets minimum hurricane resistant guidelines
- \_\_\_\_\_ Insect resistant

_____ <b>Total Points</b>
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### How did this Home Rate?

#### **180 and Above = Excellent**

The size, layout and features would make a suitable and comfortable home for your family.

#### **120 to 179 = OK**

There are some things that are not ideal, but it could be a good housing choice.

#### **119 or Below = Poor**

Better look elsewhere unless you plan to remodel.

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# Charting Your Course to Home Ownership

## What Price Home Can You Buy?

Wanting to purchase a home, knowing what type of home you would like to purchase and having your finances in order are all steps you must take in order to reach home ownership. There are more factors that must be considered and worked through as well. Knowing the limit on what you can afford is very important.

### Five Factors used to determine your housing price limit:

1. **Loan Type** (conventional, adjustable-rate, etc.)

Qualifying guidelines and down payment requirements vary by type of loan and lender.

2. **Your Income** (or household income if purchasing jointly)

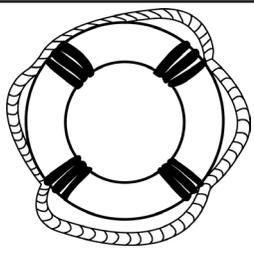
The maximum amount of your income that may be spent on your house note is set by the lender or the mortgage instrument. This is calculated to see how large a loan you may qualify for. Keep in mind that qualifying for a certain loan amount **does not always mean you can afford it**. It may be helpful to estimate monthly payments and affordability before you comparison shop.

Lenders use two ways to estimate the maximum amount you can spend on all housing expenses. This is usually determined by two income ratios: front-end ratio or back-end ratio. If a **front-end ratio** is used, your total monthly housing expense [principal, interest, taxes, insurance,(PITI)] **cannot exceed 25-29% of your stable monthly income**.

### Front-End Ratio Example using 28%

Gross Monthly Income (pre-tax)	\$4,000
x Housing Debt Qualifying Ratio	X .28
= Allowable Monthly House Payment (Principal, Interest, Taxes, & Insurance)	= \$1,120





**Life Saver/Rule of Thumb:**

To get a quick and easy ballpark estimate of your affordable housing range, multiply your annual gross income times 2.

**3. Your Debts**

Your debts include such items as; house payment, credit cards, car payments, and other loans. Lenders using a **back-end ratio** require that monthly debt payments **not exceed 33 – 41% of monthly gross income.**

**Back-End Ratio** Example using 36%

Gross Monthly Income (pre-tax)		\$4,000
X Housing Debt Qualifying Ratio	X	.36
= Maximum total Debt Allowed	=	\$1,440
- Total Monthly Debt Payments	-	\$500 <i>(car note and credit cards)</i>
= Total allowable monthly house payment	=	\$940

**4. Your Savings**

Your savings will be needed to use as a down payment in order to qualify for a loan. Down payments range from 0-20% of home price and vary by lender and type of loan. You will also need cash reserves (savings) for miscellaneous fees and charges at closing (varies from 2-10% of the mortgage loan amount).

**5. Your Credit History**

A **credit report** is a record of your history of credit card debt and other loan repayments. It shows how much debt you have and if you pay on or before the due date. Information in your credit report is used to determine your **credit score**, which is used by creditors to make decisions about whether to give you a loan and the interest rate they will charge. An advantage of credit scoring is that it avoids discrimination.

**Ways You Can Estimate Your Price Range**

**Use Internet Web sites (online Mortgage Calculators)**

Numerous Web sites can assist you in estimating mortgage payments on a monthly basis. The sites are easy to use and allow you to see what size loan you can realistically afford. Many online mortgage calculators will also supply you with current interest rates on mortgage loans in your area. Mortgage calculators can be accessed through Internet search engines.

Getting a lender or realtor to “prequalify” you for a loan gives you a good estimate of how much you might be able to borrow for a home. **Prequalifying does NOT mean you are approved for the loan.**

## Housing Price Chart

Another way to estimate the price of a home you can afford is to review the Housing Price Chart. This chart shows how much your monthly principal and interest mortgage payment will be if you made a 5% down payment on a conventional loan and also the estimated annual income needed.

### Income Needed to Qualify for a 30 Year Fixed Rate Mortgage with a 5% down payment

	\$80,000	\$100,000	\$120,000	\$140,000	\$150,000	\$160,000	\$180,000	\$200,000	Price of Home
<b>Interest Rate</b>									
5.0 %	\$408	\$510	\$612	\$714	\$765	\$816	\$918	\$1,020	principal & interest only payment
	<b>\$20,342</b>	<b>\$25,428</b>	<b>\$30,513</b>	<b>\$35,599</b>	<b>\$38,142</b>	<b>\$40,784</b>	<b>\$45,770</b>	<b>\$50,855</b>	<b>income needed</b>
6.0 %	\$456	\$569	\$683	\$797	\$854	\$911	\$1,025	\$1,139	principal & interest only payment
	<b>\$22,385</b>	<b>\$27,982</b>	<b>\$33,578</b>	<b>\$39,174</b>	<b>\$41,973</b>	<b>\$44,771</b>	<b>\$50,367</b>	<b>\$55,963</b>	<b>income needed</b>
7.0 %	\$506	\$632	\$758	\$885	\$948	\$1,011	\$1,138	\$1,264	principal & interest only payment
	<b>\$24,527</b>	<b>\$30,659</b>	<b>\$36,790</b>	<b>\$42,922</b>	<b>\$45,988</b>	<b>\$49,054</b>	<b>\$55,186</b>	<b>\$61,317</b>	<b>income needed</b>
8.0 %	\$558	\$697	\$836	\$976	\$1,046	\$1,115	\$1,255	\$1,394	principal & interest only payment
	<b>\$26,757</b>	<b>\$33,446</b>	<b>\$40,135</b>	<b>\$46,825</b>	<b>\$50,169</b>	<b>\$53,514</b>	<b>\$60,203</b>	<b>\$66,892</b>	<b>income needed</b>
9.0 %	\$612	\$764	\$912	\$1,070	\$1,147	\$1,223	\$1,376	\$1,529	principal & interest only payment
	<b>\$29,065</b>	<b>\$36,331</b>	<b>\$43,597</b>	<b>\$50,863</b>	<b>\$54,497</b>	<b>\$58,130</b>	<b>\$65,396</b>	<b>\$72,662</b>	<b>income needed</b>
10.0 %	\$667	\$834	\$1,000	\$1,167	\$1,251	\$1,334	\$1,501	\$1,667	principal & interest only payment
	<b>\$31,441</b>	<b>\$39,301</b>	<b>\$47,161</b>	<b>\$55,022</b>	<b>\$58,952</b>	<b>\$62,882</b>	<b>\$70,742</b>	<b>\$78,602</b>	<b>income needed</b>

Source of Calculations: *Income Needed to Qualify for a Mortgage Calculator*,  
[http://college.cengage.com/business/garman/personal\\_fin/9e/assets/students/calculators/chapter9.html](http://college.cengage.com/business/garman/personal_fin/9e/assets/students/calculators/chapter9.html)

## Qualifying Ratio Worksheet

Use the following work sheet to determine what allowable monthly house payment is best for you.

1.	<b>Gross Monthly Income</b> <i>(pre-tax income)</i>	\$	(A)
2.	<b>Monthly Debt Payments</b> <i>(nonhousing debts: car, credit cards, other loans)</i>	\$	(B)
3.	<b>Savings</b>	\$	

### “Housing Debt” Ratio (Front-End Method):

Front-end ratio compares the total annual PITI expenditures for housing with the loan applicant’s gross annual income to assess the borrower’s ability to pay the mortgage.

1.	Gross Monthly Income	\$	(A)
2.	Times the “Housing Debt” qualifying ratio (%) <i>Example 28%</i>	X	.28
3.	Equals the allowable house payment (PITI)	=	(C)*

### “Total Debt” Ratio (Back-End Method):

Back-end ratio compares the total of all monthly PITI expenditures plus auto loans and other debts with gross monthly income.

1.	Gross Monthly Income	\$	(A)
2.	Times the “Housing Debt” qualifying ratio (%) <i>Example 36%</i>	X	.36
3.	Equals the maximum total debt allowed	=	
4.	Minus monthly debt payments	—	(B)
5.	Equals the allowable house payment (PITI)	= \$	(D)*

\*The amount you can afford to spend on PITI (principal, interest, property taxes and home owners insurance) is the smaller of amounts C or D.

*Adapted from: Reichel, C. (1998). Your Path to Home Ownership. Baton Rouge, La.: LSU AgCenter.*

*Additional Resources: Garman, E.T., & Fogue, R. (2008). Personal Finance (9th ed.). Boston: Houghton Mifflin Co.*

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## Choosing Home Buying Professionals

Many people who are careful to check the qualifications or methods of a home repair or building contractor are often reluctant to question the expertise or skill of other real estate professionals (such as attorneys, appraisers, architects, real estate brokers, etc.) whose work is done on paper and not on the house. First-time home buyers tend to avoid asking questions for fear of insulting the professional.

Remember, the only dumb question is the one that hasn't been asked. If a home professional won't give you a straight answer or seems offended by your questions, look elsewhere. (If he or she is put off by preliminary questions, imagine what will happen when you get to the complicated ones!)

Compare services and prices. Beware of the "blind-faith" syndrome. Since most home professionals produce paperwork and opinions, there are no physical tests of quality. Without a questioning attitude, you may make important decisions about your home purchase on little more than appearances of expertise and authority.

All real estate professionals should be able to give you a clear idea of what they will do for you and how they will proceed. Ask if they can put their services in writing before you hire them. If they can't sum them up, ask for samples. Always ask for referrals. Ask these important questions when interviewing:

1. Exactly what will be included in your services?
2. What will it cost?
3. Who pays the bills?
4. When will the work begin, and how long will it take?
5. What kind of guarantee will you provide?

### Guidelines to Help You Select Your Home Buying Professionals

#### Realtor, Broker, Agent

Before you hire a real estate professional, it is important to know the difference between a real estate broker, a real estate agent and a realtor.



## **Who Are They?**

- A **Real Estate Broker** is a real estate person who is licensed by the state to practice real estate and assist buyers and sellers.
- A **Real Estate Agent** (or sales associate) also has a state license but works under the supervision of a licensed real estate broker.
- A **Realtor®** is a real estate professional, usually a licensed broker, who belongs to the National Association of Realtors and subscribes to its code of ethics. Most active agents are Realtors®. For more information contact your local National Association of Realtors or visit <http://www.realtor.com>

## **Realtor titles include:**

- **GRI (Graduate Realtors Institute)** awarded by the Louisiana Real Estate Education Foundation and developed for members of the National Association of Realtors. The GRI program includes 90 hours of coursework on various topics such as marketing and servicing listed properties to real estate law. GRIs are nationally recognized and professionally trained.
- **CRS (Certified Residential Specialist)** awarded by the Residential Sales Council (a nonprofit affiliate of the National Association of Realtors) has completed advanced training in listing and selling and are a part of a nationwide network allowing an agent in one state to refer a client moving to another state to an agent with confidence the referred agent is knowledgeable and well-trained.
- **CRB (Certified Real Estate Brokerage Manager)** awarded by the Institute of Real Estate Management Council of Real Estate Brokerage Managers (a nonprofit affiliate of National Association of Realtors). Has taken additional professional development courses in brokerage management.

A real estate agent brings together home buyers and sellers. If you work with an agent, remember who he or she is working for. Unless there is a special agreement, agents in Louisiana have a fiduciary responsibility to both seller and buyer. Ask your agent to represent your interest only.

The broker generally earns a 6-7% commission on the sale and is employed by the seller unless you arrange to hire a “buyer’s broker” to whom you pay a commission. The agent gets a part of this commission.

A real estate agent can have a big influence on your housing decisions, especially if you are moving to a new community. That’s why it is so important to choose a realtor carefully and seek other sources of information before making a final decision.

A good agent will take time to get to know you, your family’s needs and desires and what would be a suitable house for you. Seek an agent you can trust, can really communicate with and enjoy being with. The agent’s knowledge of the market, ability to protect your interest, skill in concluding the sale and track record should all be important considerations.

What is the difference between a listing agent, seller's agent, buyer's agent and for sale by owner?

- Listing agent – works for the sellers of the house, representing only the seller's interest. They are obligated to seek qualified buyers. Even if the listing agent is not involved in negotiating the sale, they receive a percentage of the sale commission.
- Seller's agent – represents only the interests of the seller. It is in the best interest of the seller's agent to close a sale at the highest price since the commission is a percentage of the sales price. Sell must be completed to earn commission.
- Buyer's agent – is hired by the buyer and works for the buyer only. The agent is obligated to represent the buyer's best interest in obtaining the lowest sales price and best conditions in the purchase contract. In hiring a buyer's agent, you can negotiate a basic fee plus incentives to reduce the price of the house. For more information or to contact a local exclusive buyer's agent visit <http://www.naeba.org>.
- For Sale By Owner (FSBO) – Some home owners sell their home without a broker. The FSBO route means avoiding paying a broker's commission, but requires the seller to take on the time and expense of selling the home. Services are available to help FSBO sellers market their properties.

Before you pick a realtor to help you in your home hunt, there are more questions to ask. Here are some suggestions:

1. Are you a licensed broker or sales agent in good standing, and for how long?
2. Are you a member of the National Association of Realtors and/or Louisiana Real Estate Commission (LREC)?
3. Do you belong to the Multiple Listing Service (MLS - Multiple Listing Services are cooperative information networks of REALTORS® that provide descriptions of most of the houses for sale in a particular region) and/or a reliable online home buyer's search service?
4. What real estate designations do you hold?
5. Do you work full time in real estate?
6. How long have you been selling real estate in this area?
7. Will you provide several references of recent home buyer clients?
8. Do you have current information about local mortgage alternatives and loan terms?
9. Can you provide reputable banking and credit referrals?
10. What types of disclosures will you provide about a home before I make an offer?
11. In exchange for your commitment, how will you help me accomplish my goals?
12. Do you have any knowledge of green building?

## Attorney and Closing Agent

The services of an attorney are often used in real estate purchases. If you hire one, choose an attorney as carefully as you choose your family doctor. Ask for recommendations from friends and relatives. You might also contact the local bar association.

Look for an experienced real estate attorney rather than a general practitioner. If you are moving to a new area, you can find out which firms handle the most real estate transactions by checking the deeds and mortgages recorded at the parish clerk's office.

Once you have the names of several attorneys who have good references, it may be helpful to call two or three of them. Explain that you are in the process of choosing a real estate attorney to handle your home purchase.

*You should ask:*

1. Is there a fee for a preliminary consultation, and is it applied to the final bill?
2. Do you charge by the hour, or can you quote a flat fee for handling all of the details of the purchase?
3. May I have a written estimate of the fees and what they cover?
4. Do you have an attorney/client relationship with either the lender or the seller?
5. Will you review my purchase agreements and add contingency clauses to protect me from hidden problems and disputes?
6. If you get a discount on title insurance, will you pass it on to me?

You may choose to involve your attorney in any of these four steps of buying a house:

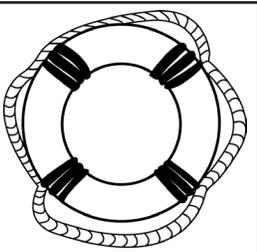
- Reviewing and revising the purchase agreement.
- Evaluating financing terms.
- Arranging the title search and survey of the property, making sure there is clear title and that the home is free of liens.
- Closing the sale. That includes making all of the disbursements, having all sale documents prepared and signed and recording the deed and mortgage at the clerk of court's office.

In many areas, title insurance companies routinely provide these last two services. The company may offer the closing service for a fee or it may be included when you purchase title insurance.

In some places, closings can also be conducted by lenders, real estate brokers or escrow companies offering that service. You could save money if you ask and shop around for your closing agent.

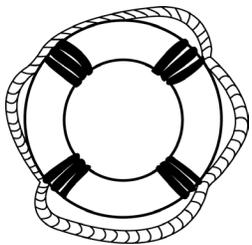
## Title Insurance Company

Before closing, you need to get a title search on the property and title insurance. A title search is required by lenders to prevent fraudulent sales and to find any liens (legal claims on the property). Lenders also require you (and/or the seller) to pay for lender's title insurance. This protects the lender in case a flaw in the



### **Life Saver:**

*A flat fee is usually a better option. Avoid an attorney who charges a percentage of the home's purchase price.*



### **Life Saver**

*A professional real estate appraisal is necessary to determine if the asking price is a fair one.*

title turns up after the sale. It's a good idea also to buy owner's title insurance to protect yourself.

Look for a company that can save you money by charging a reduced fee for a combined lender's/owner's policy. You may also get a lower price by using the same company that has previously insured the title on that property. In addition to title services, some companies may conduct closings as a service to their customers. Ask about fees.

## **Appraiser**

An appraisal is an educated opinion of the market value of a piece of real estate based on sales of nearby or comparable homes within the past 60 days.

Deciding how much to offer can be difficult until you know the market value of the house. **Mortgage loans are based on the appraised value and not on the asking price.**

Whether or not you choose to have your own appraisal done before you sign a purchase agreement, your lender will require one afterward. The lender's appraiser must verify the home is in good condition and has a high enough market value to cover the debt if you default. Get a copy of this appraisal for your records. It contains a lot of information about the house you're about to buy. If you're hiring your own appraiser, choose one who knows the community and has MAI or ASA after his or her name.

- MAI stands for Member, Appraisal Institute (for more information and additional professional designations go to <http://www.appraisalinstitute.org/designations/>)
- ASA denotes membership in the American Society of Appraisers.

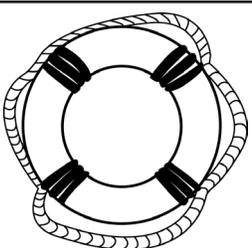
Get in writing the cost and time involved. Be aware that many lenders do not accept an appraisal selected by a buyer instead of their own. Discuss this with the lender you plan to use before you choose an appraiser.

If you are using one of the government insurance programs to finance your house, the appraisers must be recognized by the Department of Housing and Urban Development (HUD) or the Veteran's Administration (VA). Appraisals made for one of these types of loans will be good for either type of financing.

A qualified appraiser should have nothing to gain or lose from a sale and should work for only one party. Findings should be reported in written form and include:

- An accurate description of the property
- A purpose statement for the appraisal
- All of the data used to determine value, including at least three comparable sales and cost-approach figures
- A final estimated value
- Any special conditions (easements, etc.)
- Appraiser's certification and signature

The cost of a complete appraisal of a three-bedroom, two-bath house may range around \$350-\$550. An update on an existing appraisal may be less.



### **Life Saver**

*To locate a local appraiser in Louisiana, go to [http://www.lreasbc.state.la.us/dbfiles/appraiserinfo\\_new.htm](http://www.lreasbc.state.la.us/dbfiles/appraiserinfo_new.htm)*

## Home Inspector

Lenders usually require a termite inspection and mechanical equipment inspection. A more complete inspection is a good idea. Getting a thorough inspection before you buy a home can save you thousands of dollars and heartache from unexpected problems.

If you plan to hire an inspector, be sure your purchase agreement says the sale is subject to your approval of the results of a professional inspection. Knowing about the home's flaws could also help you negotiate a better price on the house if you decide to buy it anyway or get the seller to pay for repairs.

A reliable home inspector should thoroughly examine the home and give you an evaluation of its condition, describe structural problems and check all the mechanical systems (plumbing, heating, air conditioning, electrical, well water, septic, etc.).

Sometimes home warranties are used instead of a house inspection. While a warranty may be a worthwhile form of insurance for buyers who couldn't easily afford major repair expenses, it's wiser to know up front if there are any problems so you're not caught by surprise. Most real estate companies sell such a warranty. Sometimes sellers pay for the warranty to make their home more attractive to buyers.

Look for a licensed inspector, preferably who is a member of the American Society of Home Inspectors (ASHI). In Louisiana home inspectors must be licensed. If the structure is complex, you may want one with Professional Engineer (PE) credentials.

An inspection by a company that also makes repairs poses a conflict of interest. A reputable inspector would never offer to perform needed repairs and should not refer you to a contractor.

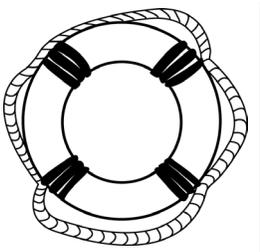
Your contract for an inspection should state that the detailed report be written and list:

- Major problems and estimated costs to correct them
- Minor problems and estimated costs to repair them
- Estimates of the expected life of various items such as roof, furnace, electrical system, air conditioning, appliances
- Costs of maintenance

If possible, go with the inspector on his or her rounds so you can learn first-hand the condition of the house as well as maintenance tips. The inspection may take 2 or 3 hours and cost \$300-\$500, depending on the complexity of the house and credentials of the inspector.



*Red Flag: Homes built before 1978 may contain lead-based paint. The older the home, the more likely it is to contain lead-based paints. You may want to seek an inspector who is certified to conduct lead inspections. The Louisiana Department of Environmental Quality lists certified lead inspectors on their Web site <http://www.deq.louisiana.gov/portal/Default.aspx?tabid=2251>. Scroll down to the section labeled Louisiana Lead Accredited List by Discipline.*



**Life Saver**  
Louisiana law requires existing homes be inspected by a licensed home inspector prior to purchase. This law does not apply to new construction; a licensed inspector is not required. To locate a local home inspector, go to <http://lsbhi.state.la.us>

## Surveyor

A reliable survey is as important as your property deed, because it is the exact definition of the property you are buying. Your lender may require a survey before closing to confirm that the property's boundaries are as described in the purchase agreement. The survey, or plot plan, might show that a fence or other feature is on the wrong property.

A typical four-corner residential lot survey averages from \$250 - \$500, sometimes more if you want stakes placed in the ground. It is normally paid by the buyer. Find a surveyor by getting referrals from your lender, tax assessor, inspectors, architects, building contractors or title companies.

## Mortgage Lenders

Banks, credit unions and mortgage companies lend money to home buyers. Some government agencies provide housing assistance or direct loans to low- and moderate-income home buyers. These include Rural Development for rural low-income residents, the Louisiana Housing Finance Agency, some city governments and various federal programs that can make loans from private lenders more affordable.

You should shop for financing just as carefully as for the home itself. Begin comparison shopping at the financial institution where you do business. Also get recommendations from friends, your attorney, sales agent or the real estate section of the local newspaper. To do your homework:

- Learn the meaning of mortgage terms and look into different types of home finance alternatives and affordable loan programs.
- Check at least 10 mortgage sources to shop for the best terms.
- Shop for services as well as interest rates.
- Compare all the fees and costs charged by each lender. Ask about interest rate lock-in options.

Do not wait until you have a signed purchase agreement to begin the search for a mortgage, because it can take a long time to get a loan commitment. Ways to get information about mortgages include: checking the weekly real estate section of the local newspaper, calling lenders directly, asking your real estate agent and contacting appropriate government agencies to request information about home ownership programs and participating lenders.

*Adapted from: Reichel, C. (1998). Your Path to Home Ownership. Baton Rouge, La.: LSU AgCenter.*

### Additional Resources:

- *FTC Facts for Consumers: Selling Your Home? Tips for Selecting a Real Estate Professional (10/2006)*, Federal Trade Commission, Bureau of Competition. Retrieved on April 17, 2008 from <http://www.ftc.gov/bc/edu/pubs/consumer/homes/zrea01.pdf>
- *How to Choose A REALTOR®*. Retrieved July 21, 2008 from <http://www.realtor.com/Basics/Buy/Looking/Realtor.asp>
- Hernandez, Ivan, O'Brien, PhD. David P., Kratzer, PhD., Constance. *Home-Buying Process: Using Real Estate Professionals, Home of My Own, My Propia Casa*, Retrieved on April 14, 2008 from [http://www.nmhomeofmyown.com/buying/buying\\_pdf/UsingRealEstateProfe.pdf](http://www.nmhomeofmyown.com/buying/buying_pdf/UsingRealEstateProfe.pdf)
- *Appraisal Institute (2008). Designations*. Retrieved April 16, 2008 from <http://www.appraisalinstitute.org/designations/>

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# Charting Your Course to Home Ownership

## Which Way to Turn: Your Shopping Resource Choices

The task of shopping for a home can seem overwhelming. Where do I look? What resources do I have? Do I go it alone or use a realtor? In today's market, you have many options.

### Word of Mouth or “Cruising”

Many homes are sold before they are advertised or listed with an agency. Friends, relatives or acquaintances often pass along information about homes in their neighborhoods you might be interested in purchasing. Ask around and let your friends know you are looking for a home. Driving around neighborhoods in areas you are interested in living is another method. Look for “For Sale by Owner” signs. These homes may not be listed elsewhere.

### Newspaper Ads

Local newspapers may list homes on the market in your area as well as mortgage rates from local lenders. Open houses announced in the real estate section may give you a chance to begin looking around on your own. Newspaper ads provide you with information on when a home is open for public viewing.

### Local Shoppers' Guides

Home finders' directories may be available, especially in larger cities. Pictures and descriptions of homes are listed by area.

### Realtors

Professional Realtors have a list of local houses on the market from a Multiple Listing Service (MLS), which compiles information from all realtors in the community. If you are moving out of area, they can also be of help. Other ways an agent can assist you include:

- Prequalifying you to help set your housing price range
- Listening to your needs for your family
- Showing you homes in your price range that meet your needs
- Finding answers to your questions
- Providing information about the community and local schools

- Presenting your offer to the seller
- Advising you about closing procedures and professionals

Remember, as a buyer, you should be sure you understand who the real estate agent represents and who pays the fees. In most cases the seller usually pays the commission based on the sales price of the home.

### Online Listings

There are numerous online listings. National and local real estate agencies have Web sites providing information on homes they have listed. Many areas have Web sites dedicated to homes listed as “For Sale by Owner.” Federal housing agencies also have Web sites listing homes across the country. A few examples of such sites are:

- www.realtor.com
- www.homescape.com
- http://www.hud.gov/homes/homesforsale.cfm

### Comparison Record - Sample

Home Features:	1	2	3
Address	101 Azalea Street	102 Magnolia Street	103 Rose Street
Price	\$120,000	\$128,000	\$125,000
Living Area (sq. ft.)	1,800	1,750	1,850
Total Sq. Footage	2,100	2,150	2,350
Price Per Sq. Ft	\$57.14	\$59.53	\$53.19
Age of home	15 years	7 years	12 years
Lot size	Corner 60x40	75x75	100x75
Number of stories	2	1	1
Number of bedrooms	3	3	3
Number of bathrooms	2	2	2
Total number of rooms	6	6	6
Exterior walls	Brick	Vinyl siding	Brick
Condition of kitchen and appliances	Outdated but work, do not match	New, white	New dishwasher & frig, black
Type and age of heating system	Gas, space heaters	Gas, central unit	Electric, central unit
Type and age of air conditioner	Window units	Electric, central unit	Electric, central unit
Highest summer energy bill	\$225	\$200	\$250
Fireplace	Yes, with insert	Gas fireplace	Yes, with insert
Garage/Carport (number of cars)	Single	Double, enclosed	Double, enclosed with doors
Landscaping	Yes, large trees	Yes, few trees	Minimal, some trees
Location	Close to park	Busy intersection	Good schools
Terms of sale	Will pay 50% of closing cost	Can't close until end of school	Will pay to have carpet cleaned
Special features	Vacant/ storage building	Large utility room/storm windows	Concrete drive



## Photographs and Floor Plan Sketches

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*Adapted from: Reichel, C. (1998). Your Path to Home Ownership. Baton Rouge, La.: LSU AgCenter.*

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# Charting Your Course to Home Ownership

## Negotiating for Your Home

A home is the largest purchase most people ever make, so a home buyer who doesn't negotiate can end up with unnecessary costs. Negotiation should take place at all stages of the home-buying process including the hiring of professional services, the contract between buyer and seller and the choosing of a mortgage lender.

### Information Helps

Before you can negotiate with others successfully, you need information. Start reading the real estate section of local newspapers and the free real estate magazines available at broker's offices and supermarkets. Note the location, size, features and price of listed homes. See if prices appear to be rising (a seller's market) or if sellers are reducing their asking prices (a buyer's market). It can also be helpful to read the business section of the newspaper to stay aware of current economic conditions and trends, like mortgage rates.

When you start visiting homes for sale with a real estate agent, keep a notebook to jot down your thoughts and the key features of each one. Plan to look at a minimum of 10 to 15 houses in your price range. Remember, unless you are working with a realtor you have hired to represent you, the realtor is usually representing the interests of the sellers.

### Negotiating Price

Eventually most buyers find a home they can afford that also meets most of their needs. Now is the time to negotiate. Unfortunately, buyers often have a limited period of time to figure out the price and conditions they will offer in a home purchase agreement. That is why 3 to 6 months of "homework" really helps. Carefully consider economic trends and ask your realtor to give you information regarding the price of comparable homes listed in the area over the past 6 months.

You can negotiate from strength if you know something about the seller's situation. If you know a seller's deadline but they don't know yours, you have a negotiating advantage. The closer sellers are to their deadline, the higher their need to close a deal and the more likely they are to make concessions.

It's helpful to know why a seller is moving. Sellers may take less if they've had few or no offers, are buying another home, are divorcing, are settling an estate or must transfer to a new location quickly. Find out how long their house has been on the market and if they've had any previous offers.



The most important point of negotiation is, of course, the home's price. Be certain you really want to buy that home before you begin negotiating. Submit all offers in a written purchase agreement. Only written offers may be considered.

In general, sellers expect to receive less than their asking price and often pad it to end up with the amount of money they really want. Unless real estate is extremely active (a seller's market), you can probably make an offer below asking price. The exact amount of your offer should depend on the market value and how fast local homes are selling.

Ask whether the listing agent prepared a comparative market analysis (CMA) on the home. This is a written report that reviews prices of comparable homes in that location that are currently on the market, under contract and that have sold recently.

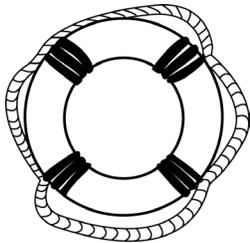
In a seller's market, you may have to offer close to (or above) the asking price. In a buyer's market, you can usually offer less than the asking price. It's a gamble, but if your offer is not accepted based on price alone, the seller may make you a counter offer at a higher price or you can always resubmit a new contract and raise your offer. A real estate agent is obligated to submit every bona fide written offer (purchase agreement).

You cannot, however, go back to a seller and lower your offering price once a contract is signed. That's why it is so important to be sure how much you can afford and know both the market value and condition of the home before you make an offer.

## **Purchase Agreement Contract**

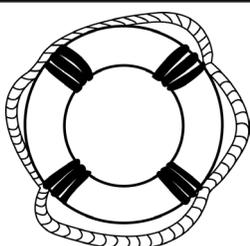
Other parts of a contract to buy a home deserve as much attention and negotiation skill as the price. Your written purchase agreement should include "contingency clauses" to protect your interests. These are the conditions or requirements of your offer. If any of these contingencies aren't met, then you can withdraw your offer and void the contract. Here are some items to consider:

- What will be included with the sale? – If you would like items such as the seller's appliances, draperies, light fixtures or fireplace screen, list them in writing in the purchase offer. The seller can then decide to: include them in the offering price accordingly, remove these items from the contract or sell them in a separate transaction. If you don't list them, you may not get them, so be specific and detailed to avoid misunderstandings.
- Deadlines – The offer to purchase should state a length of time (in days) that the offer is valid. If the seller does not accept it within that time, you may withdraw it. This agreement should also state a proposed closing and occupancy date.
- Home Inspections – Two of every five homes for sale have at least one serious defect which could be costly to repair. A contingency clause should be written into your offer to allow you to have one or more inspectors evaluate the property. This clause also allows you to void the home purchase contract if inspectors find any serious problems.
- Some defects that should concern you include: mold and decay; termite damage; lead-based paint; septic system malfunction; deterioration in the heating, plumbing or electrical systems; sagging in the foundation; rotting in the roof; water damage and other defects that could be expensive to



### **Life Saver**

Standard real estate forms can be accessed online at <http://www.lrec.state.la.us/forms.htm>. Click on *Standardized Real Estate Forms*, then choose the form you wish to view.



### **Life Saver**

Don't respond to any suggestions or counter offers unless they are presented in writing. For example, if a seller or his agent tells you your offer is too low, insist on a written counter offer indicating the price (or other changes) that would make your offer acceptable. Don't feel pressured into raising your offer on the spot.

repair. If you're concerned about the defects, you can withdraw your offer, renegotiate the price or ask the seller to pay for needed repairs. As part of the purchase offer, ask the seller in writing to pay for a home buyer's warranty, which is insurance to cover the cost of any home systems that might fail during your first year of home ownership.

- Financing – Be sure to make an offer to buy contingent upon your being able to obtain a mortgage at the terms you specify. The specified number of days to receive a mortgage loan commitment should match or exceed your lender's time needs to process loan applications. In times of heavy loan activity, this deadline may be extended.

The agreement should state the price, the down payment amount, the total loan amount and the exact financing terms you will accept. It should also state the amount of deposit being held in escrow and which closing costs are to be paid by the buyer and which by the seller.

- House sale contingencies – If you need to sell your present home to finance a new one, insert a clause in your purchase offer to make your new home purchase contingent upon the sale of your current residence. Many sellers will object to this, however, particularly when the real estate market is strong.
- If sellers accept a contract with a house sale contingency, they will probably add a "knock-out clause." This allows them to keep their home on the market. If another offer comes along, you may have only a few days to remove the contingency or lose the home to another buyer.
- Other contingencies – An appraisal contingency gives you the right to withdraw your offer if the appraised value is lower than the purchase price. The agreement should also state that the sale is subject to (depends on) your receiving a clear title on the property. Try to include a statement that the sellers are responsible for ensuring that the plumbing, heating, air conditioning, mechanical and electrical systems are in working order at closing. Without this clause, you accept the house "as is."

Once a buyer has completed and signed the offer, it is presented to the seller. If the seller accepts everything in the purchase agreement contract, including the price and all of the clauses, the seller signs it. The signed contract is then binding on both buyer and seller, subject to any listed contingencies.

If the seller wishes to negotiate, a counter offer is made with either a new contract or with notations and substitutions made on the original document. The original offer is legally canceled. The buyer then receives the revised contract and can either sign it, if acceptable, or reject it and make a second offer. Most agreements are reached after two or three rounds of offers and counter offers.

## **Additional Negotiating Tips**

While you are visiting homes for sale and negotiating a contract, watch what you say within earshot of either a real estate agent or a home seller. Everything you say can and will be used in the bargaining process. For example, if you submit a contract with a figure lower than the asking price, don't let the seller's agent know you are willing to pay more. Never confide your negotiating strategy. The seller's agent is legally bound to persuade you to buy at full asking price and on terms that favor the seller.

If the seller agrees to make repairs based on negotiations following a home inspection report, insist they be done by contractors you select and supervise. Otherwise the work could be poorly done with incompetent labor and/or inferior materials.



*Red Flag: Never submit a contract to buy a house after seeing it only once. Return for another look the next day or weekend and more often, if necessary. It's wise to return immediately after a rain, if the weather cooperates, to see possible water or drainage problems.*

Don't be embarrassed to revisit the homes you like most. Remember, you don't really "see" a home on the first visit. Shoppers tend to focus on several outstanding features (the pretty wallpaper) and have little memory, or an inaccurate impression, of the rest of the house. Returning to the house may also give you an opportunity to talk to the sellers.

Remember that seller's real estate agents work for, and are paid by, sellers. Once you express an interest in buying a home, the seller's agent will be eager for you to sign a purchase agreement. Do not sign anything until you have read it and made sure it includes everything you need to protect your interests. Don't let an agent talk you into raising your first offer for fear of insulting the sellers.

You may want to consider hiring a buyer's real estate agent to represent your interests. You may be charged a flat fee, an hourly rate or a percentage of the sales price. A good buyer's agent should be a skilled negotiator and might be able to save you enough to cover the fee charged. In Louisiana, realtors are required by law to tell you in writing if they represent the buyer or the seller. Be sure your agent adequately represents you.

Negotiating to buy a home is the process of telling sellers at what price and on what terms you are interested in their property. Expect to haggle by insisting on the price and the conditions you desire. Many buyers don't realize they are allowed to bargain on key features of the deal, and agents don't always tell them. Also, expect to make some compromises.

Read books, articles and go to home buyer Web sites online for additional information, consult experienced and knowledgeable friends or coworkers and hire professional advisers when needed. Don't be afraid to ask questions. Doing your homework will help you buy a home with confidence and knowledge that you've made the right decision.

*Adapted from: Reichel, C. (1998). Your Path to Home Ownership. Baton Rouge, La.: LSU AgCenter.*

*Additional Resources: Louisiana Real Estate Commission (2008). "Disclosure and Consent to Dual Agent Designated Agency."*

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# Charting Your Course to Home Ownership

## Your Housing Rights

### Fair Housing Act

The Fair Housing Act makes it illegal to discriminate because of race, color, national origin, religion, gender, disability or familial status (being pregnant or having children). Fair housing discrimination means unfairly denying someone the right to own or rent a house or an apartment. You have the right to buy or rent any home you can afford in any neighborhood. In some circumstances the act exempts owner-occupied buildings with no more than four units, single-family housing sold or rented without the use of a broker and housing operated by organizations and private clubs that limit occupancy to members.

What does that mean to you in practical terms? In most situations no one can take any of the following actions based on race, color, national origin, religion, gender, familial status or disability.

#### Sale and Rental of Housing

- Refuse to rent or sell housing
- Refuse to negotiate for housing
- Make housing unavailable
- Deny a dwelling
- Set different terms, conditions or privileges for sale or rental of a dwelling
- Provide different housing services or facilities
- Falsely deny that housing is available for inspection, sale or rental
- For profit, persuade owners to sell or rent (blockbusting)
- Deny anyone access to or membership in a facility or service (such as a multiple listing service) related to the sale or rental of housing.

#### Mortgage Lending

- Refuse to make a mortgage loan
- Refuse to provide information regarding loans
- Impose different terms or conditions on a loan, such as different interest rates, points or fees
- Discriminate in appraising property



- Refuse to purchase a loan
- Set different terms or conditions for purchasing a loan

## **Additional Protections**

It is illegal for anyone to:

- Threaten, coerce, intimidate or interfere with anyone exercising a fair housing right or assisting others who exercise that right.
- Advertise or make any statement that indicates a limitation or preference based on race, color, national origin, religion, gender, familial status or disability (applies to single-family and owner-occupied housing that is otherwise exempt from the Fair Housing Act).

An exception is that some housing developments for the elderly may be restricted to adults only. Also, a landlord may use income level and good payment history requirements as long as they apply to all rental applicants.

## **Additional Protection If You Have a Disability**

If you or someone associated with you:

- Has a physical or mental disability (including hearing, mobility and visual impairments, chronic alcoholism, chronic mental illness, AIDS, AIDS-related complex, mental retardation) that substantially limits one or more major life activities
- Has a record of such a disability
- Is regarded as having such a disability

A landlord may not:

- Refuse to let you make reasonable modifications to your dwelling or common use areas, at your expense, if necessary for the disabled person to use the house. (Where reasonable, the landlord may permit changes only if you agree to restore the property to its original condition when you move.)
- Refuse to make reasonable accommodations in rules, policies, practices or services necessary for the disabled person to use the housing.

Fair Lending is also covered under the Fair Housing Act. The U.S. Department of Housing and Urban Development's (HUD) Office of Fair Housing and Equal Opportunity enforces the law. Based on race, color, national origin, religion, gender, familial status or disability, no one can legally:

- Refuse to make a mortgage loan
- Refuse to provide information regarding loans
- Impose different terms or conditions on a loan, such as different interest rates, points or fees
- Discriminate in appraising property
- Refuse to purchase a loan or set different terms or conditions for purchasing a loan

Of course, a lender may reject your loan application for other reasons, such as insufficient income, unacceptable credit history or other factors that are not discriminatory. You have the right to fair lending.

If your loan application is rejected, you have the right to know why. Lenders are required to give you the reasons in writing.

## Housing Rights Violations

If you think any of your fair housing rights have been violated, you should first discuss your concerns with the person or people involved. If you're not satisfied after discussing your complaints, you can contact the Department of Housing and Urban Development (800-669-9777) for help, or contact the HUD office closest to your home. Complaints also can be filed online at <http://www.hud.gov/complaints/housediscrim.cfm>.

## Additional Consumer Protections

The **Real Estate Settlement Procedures Acts** of 1974 (RESPA) require lenders to give their borrowers the following disclosures:

1. A **Good Faith Estimate** of the settlement (closing) costs of your loan, is the lender's best estimate of the closing costs, based on information available to the lender when you apply for the loan. If any of the costs are uncertain at that time, the lender will indicate which ones are estimates. The settlement form lists all the services provided and fees charged in connection with your loan.
2. The **Annual Percentage Rate (APR)** on the loan, showing the costs of your mortgage loan as a yearly rate. This rate is usually higher than the rate stated in your mortgage or deed of trust note because the APR includes up-front fees (such as points) as well as interest.

The APR is intended to show you the true cost of your loan. When comparing one loan to another, be sure to compare APRs to get a true picture of what each one will cost you over the full term of the loan. If you don't plan to own that home until the mortgage is fully paid (for instance, if you plan to move in a few years), however, the APR may not be the best way to compare loans. If you plan to sell soon, it may be wiser to compare loans by looking at which has the lowest up-front costs.

Your lender will provide you a Truth-In-Lending statement that shows the following items in addition to the APR. This information is required by the Truth-In-Lending Act.

3. The **total finance charge**. Don't be surprised if a total 30-year finance charge is larger than the price of your house.
4. **Schedule of payments**. The amortization schedule will show how much you are paying each month for interest on the loan and how much you are paying monthly toward the amount of the loan (principal).
5. **Late payment charges**. Shows how much extra you'll have to pay if your monthly payment is not made by its due date.

Note: If you use seller financing or another low-volume lender, you probably won't receive the above information.

The Department of Housing and Urban Development publishes a brochure called "A HUD Guide for Home Buyers – Settlement Costs." When you apply for a mortgage loan, your lender will give you a copy. Be sure to read it carefully. If you haven't yet applied for a loan, you may request the brochure from HUD or any mortgage lender.

For more information on any of your housing rights, contact a Department of Housing and Urban Development (HUD) office and ask for the brochure, "Fair Housing – It's Your Right." the HUD offices in Louisiana are:

**New Orleans Office**

Hale Boggs Federal Building  
 500 Poydras, 9<sup>th</sup> Floor  
 New Orleans, LA 70130  
 Phone: (504) 589-7201  
 Fax: (504) 589-7266  
 TTY: (504) 589-7277

**Shreveport Office**

Louisiana Tower  
 401 Edwards Street, Suite 1510  
 Shreveport, LA 71101-5513  
 Phone: (318) 676-3385  
 Fax: (318) 676-3407  
 TTY: (318) 676-3399

Or go online <http://www.hud.gov>

*Adapted from: Reichel, C. (1998). Your Path to Home Ownership. Baton Rouge, La.: LSU AgCenter.*

*Additional Resources: U.S. Department of Housing and Urban Development. Fair Housing – It's Your Right. Washington, D.C., Retrieved on April 18, 2008 from <http://www.hud.gov/offices/fheo/FHLaws/yourrights.cfm>*

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# Charting Your Course to Home Ownership

## Home Inspection Checklist

Before you buy a house, take the time to inspect the structure and mechanical systems thoroughly. This will help you avoid surprise costly repairs.

You may be looking at existing homes as a way to get more space or other features for less money than it would cost for a new house. You should expect older houses to need updating and repairs, however, the problems are often hidden.

You should do a preliminary inspection before you make a purchase offer. The condition of the home and needed repairs will affect your offer.

A thorough inspection before you buy is even more important. A purchase offer can include a requirement (also known as a contingency) that you will be allowed to have inspectors evaluate the property and withdraw your offer without penalty if major defects are found. If defects are found, however, you do not have to reject the house. You could add a requirement that the defects must be corrected before closing the sale. Or, a lower purchase price can be negotiated based on the cost of correcting the defects.

You may choose to hire a professional home inspector, or you may decide to do it yourself. Whichever way you choose, the thorough inspection should be done after a purchase agreement is signed but before a loan is applied for or a title search ordered. As a condition for financing, most lenders require that professional mechanical system and termite inspections be performed.

If you decide to hire a professional home inspector to do a complete inspection, be there when the inspection is done. Follow him or her around. Ask questions. It's important to know what is being checked, why and what the condition of each area is.

When you do a preliminary inspection, or if you decide to do the thorough structural inspection yourself, these tools will come in handy:

- Pencil and paper to record information
- Measuring tape (25 or 50 feet) to measure house and room dimensions (to see if your furniture will fit)
- Small stepladder
- Bright flashlight for inspection of the attic and subfloor (under a raised house)
- Ice pick or pocket knife to test the condition of wood structure
- Hand level to check drainage of sidewalks, porches, etc. and to see if floors are level

- Screwdriver to remove electrical faceplates to look for insulation and the condition of the wiring (turn off the current first!)
- Three-prong electrical circuit tester to test receptacles
- Binoculars for inspecting roof shingles and flashing from the ground

## **Inspection Procedure**

Walk around the outside of the house at least twice. As you walk, note areas you'll need to inspect more carefully when inside the house. On the first trip, look at the foundation, drainage and siding; the second time check windows, gutters and the roof.

Once the outside inspection is finished, develop a procedure for inspecting the inside. Work up through the house to the attic. Take plenty of time to look at everything behind boxes, in dark areas, under cabinets, etc.

You can use this checklist to record your inspection findings. Note that the items may not be in the order of your inspection procedure. The list does not cover décor or special equipment you may want.

## **Lot**

- Does the slope of the lot drain all rainwater away from the house?
- Are finished grades safe and convenient for access to and use of the lot?
- Are all trees at least 10 feet from the house and shrubs planted 3 feet from structures?

## **Soundness of Construction**

- Are the foundation walls, interior walls and ceilings free of cracks?
- Check for out-of-square door frames. These conditions might indicate excessive settling.
- Does the structure sag? Are exterior walls plumb and square?
- Do floors or ceiling joists sag?
- Are the floor and ceiling joists in good condition? Check the size and condition of the main beams, support posts and rafters.
- Is the roof ridge straight? Sagging can indicate foundation or other structure problems.

## **Windows**

- Do the windows operate easily and close tightly? Check inside and outside.
- Is the woodwork surrounding all windows a good fit and in good condition?
- Is the weather stripping, caulking and glazing in good condition?
- Are there insulated or storm windows and screens? Do they fit properly? Are any missing or broken?

## **Doors**

- Do all exterior doors fit tightly and operate easily? Check by opening and closing each door. If one tends to stick, it could be swollen from too much moisture. Carefully check the weather stripping to see if it's in good condition.
- Check the operation and security of locks and hinges. Check the areas around the base of the exterior door frame for rot or deterioration.
- Are the interior doors in good condition or are they warped? They should close and latch properly and easily. Check the door trim for good fit. Check knobs, locks and hinges for ease of operation and condition.

## **Paint**

- Are the painted surfaces of the house in good condition? Check for mildew and water stains, peeling, blistering and chipping both inside and outside the house. Remember, paints with significant amounts of lead could be on surfaces painted before 1978. This presents a very serious health hazard to young children when any lead paint is removed.

## **Siding**

- What is the condition of the siding materials and the paint or stain? Peeling paint or white spots on stain could indicate moisture problems. Look for decay, split siding or excessive rusting of nail heads. Look for mildew problems.
- Is the caulking around doors and windows, at corners and wherever different building materials meet in good condition?

## **Roofing**

- What is the condition of the roof? Note the type of roofing material used. Try to determine its age. Are there broken or missing singles or some with curling edges?
- Is there evidence of water leakage inside the house? Inspect rafters and insulation in the attic as well as ceilings and interior walls for water stains.
- Is the flashing in good condition and properly placed to prevent water from entering the attic? Check the flashings around fireplaces and plumbing vents.
- Are the gutters and downspouts in good condition?
- Are there any signs of leakage?
- Do downspouts empty away from the foundation?

## **Crawl Space**

- Is the crawl space dry or subject to standing water?
- Does water flow under the house when it rains?
- Look under a raised house and examine the floor joists and subfloors.
- Is there any fungi or wood rot?
- Are there large foundation vent openings in the crawl space?

## **Floors**

- Are the floors level and without serious surface defects?
- Does the floor squeak or “give” when you walk over it? Check the condition of its finish.

## **Attic**

- How do you get to the attic?
- Are there gaps in the insulation or compressed areas?
- Do you see evidence of moisture, such as discoloration of the rafters, stains on the attic floor, masonry and pipes and insulation which is damp or compacted?
- Is there adequate ventilation in the attic?
- Do all plumbing, heating and exhaust fan vents extend to the outside?
- Do you see streaks of light around vents, chimneys or roof seams? These are potential locations of water entry.

## **Insulation**

- What types and how much insulation is over the ceilings, in the walls and under the floor (if the house is not on a slab)? Check the thickness and general condition. Recommended insulation R-values for Louisiana are R-30 over ceilings, R-16 to R-19 for walls and R-11 under raised floors.

## **Heating and Cooling System**

- What is the condition of the heating and cooling system? Replacing a heating or cooling system is a major expense, so it’s wise to have the system inspected by an expert.
- How old are the units? Turn the system on, and note its performance. Check for adequate air movement in each room if the system is forced air. Check for duct leaks by running the fan while feeling areas around duct joints. If you are checking the central air conditioner yourself, a couple simple checks are advised. After the unit has run for several minutes in summer temperatures check the larger refrigerant lines at the outside unit. Condensate or moisture should be on the surface of the pipe if the unit is operating properly. Another check is to use a thermometer and measure the air temperature at the first register (outlet) into the house then measure the temperature of the air at the return grill. The difference in temperature should be between 12 and 18 degrees. Lower or higher temperature differences indicate at least a need for service.
- Dirty filters also might be an indicator of the maintenance that the HVAC has had.
- Where are the thermostats located?
- Has an energy audit been done on the system? If an energy audit has been conducted, ask for a copy of the report. Ask to see the previous year’s utility bills.
- What are the rated efficiencies?

## **Electrical System**

- Does the service box have at least 100 amperages? Check the quantity and types of circuits for appliances and other electrical equipment to be used. Check to see whether kitchen and laundry circuits are adequate.
- Where are electrical receptacles located, and are there enough of them to meet your needs? Grounded receptacles are identified by the presence of a third, round hole for the grounding conductor. Use a circuit tester to see if receptacles are wired correctly and are grounded.
- Does the house have ground-fault circuit interrupter (GFCI) protection in the kitchen, bathroom, garage and outdoor circuits? Special GFCI receptacles can be identified by the “test” and “reset” buttons on the face of each outlet; GFCI breakers are labeled in the service box. This protection may not exist in older homes, but is a possible indicator the electrical system has been upgraded.
- What is the condition of the visible electrical wiring in the attic, basement or garage? Note the type of wire used and its condition. Aluminum wire as distribution circuits is an indicator of many potential problems. As with the heating system, you may wish to have a more detailed inspection made of the electrical system.

## **Water System and Quality**

- What is the condition of the plumbing fixtures, especially in the bathroom and kitchen? Also, look for water damage on the bottom of sink cabinets, around the bases of toilets and on ceilings (below where plumbing fixtures are located upstairs).
- What is the water pressure at the faucets? Turn on all faucets and flush all toilet(s) at the same time. How long it takes the tanks to refill under these conditions is a good indication of the water pressure.
- Are there shut-off valves on hot and cold water supply lines to all sinks?
- What is the capacity and condition of the hot water heater? Look for signs of rust and leaks.
- Is there a pressure relief valve?
- Is the water heater gas or electric? How far is it from the baths and kitchen?
- Where is it located?
- Can it be changed easily if the need exist?
- If there is a private well, has the water supply been tested? Acceptable water quality can be a contingency in our purchase offer.

## **Sewage Disposal**

- If the home is not on a municipal sewerage system, what is the septic tank age and condition?
- Has it been pumped regularly at 3- to 5-year intervals?
- Are there any signs indicating faulty or inadequate capacity of drain lines, such as a slowly draining sink or a toilet that backs up?

- Is the lawn over the drain field soggy? Most parish health offices will require a septic tank certification certificate at the point of sale. To obtain this certificate the health official must test the system and verify that it meets local requirements. If not the seller must correct the system before the sale can occur.

### ***Insect Damage***

- Are there signs of wood damage from insects? The most destructive insect in houses is the termite. Termites eat wood framing and may cause much damage before their presence is detected. Termites travel from the soil to wooden structural members of a house through mud shelter tubes, which they usually build on or in foundation walls. After mating, these insects discard their wings, which may be found in piles near the site of their infestation.
- Has the house been treated for termites?
- Are there piles of coarse sawdust beneath the timbers? This may indicate carpenter ants. Unlike termites, carpenter ants do not eat wood, but nest in it. They are most likely to attack wood that has already begun to rot. They may also be heard within walls and may be spotted in a house throughout winter. They are black and about ½ inch long.
- Do you see deposits of sawdust on the floor and small pencil-lead size holes in wood beams and floor joists? This may indicate the presence of the powder-post beetle. To verify, check to see if the wood crumbles when an ice pick or pocket knife is pressed into the beams, floor joists, support posts and sill plates. This may be an indicator of decay as well.

Note: If there is some indication of the presence of termites, carpenter ants or powder-post beetles, your purchase offer can be contingent on the house being free from infestation by these or other insects. You can ask the seller to pay the cost of a professional insect inspection and treatment.

### ***Indoor Air Quality***

You or someone in your household may be sensitive to certain indoor pollutants. Some common indoor contaminants are harmful to anyone. You may want to learn more about and look for sources of the following contaminants. Contact your parish office of the Cooperative Extension Service or the EPA indoor air information clearinghouse (1-800-438-4318) for free information.

- Formaldehyde is often found in particle and other wood composition board, plywood, paneling, wallpaper and permanent-pressed fabrics.
- Asbestos fibers may be found in thermal insulation, pipe and duct insulation, vinyl tile flooring, textured paint, exterior siding, stoves and furnaces.
- Carbon monoxide may be leaking from defective or improperly vented combustion appliances. These should be checked by a professional.
- Radon, a colorless and odorless radioactive soil gas, can be trapped in a house. Radon problems are rare in Louisiana.
- Lead may be present in paint (pre-1978), soils and in water from the pipe system. It is most harmful to young children, and remodeling activities increase the hazard.

- Volatile organic compounds are in solvents and many other household products. You may want these products removed before you move in.
- Excessive moisture can damage building materials and lead to biological air pollutants such as molds and dust mites. Humidity levels are affected by how a house is constructed, cooled and used.
- Tobacco smoke and animal dander can remain in the materials of a home and be difficult to remove fully.

<i>Adapted from: Reichel, C. (1998). Your Path to Home Ownership. Baton Rouge, La.: LSU AgCenter.</i>	
<i>Adapted by: Gene Baker, PhD. Adjunct Professor. Baton Rouge, La., LSU AgCenter.</i>	
<p>This material is based on work supported by the Restoring Home Ownership in Louisiana Hurricane Recovery project funded in part by USDA Cooperative State Research, Education and Extension Service, Smith-Lever Special Needs project number 2007-41210-03986.</p>	<p>Visit our Web site: <a href="http://www.lsuagcenter.com">www.lsuagcenter.com</a>  Louisiana State University Agricultural Center  William B. Richardson, Chancellor  Louisiana Agricultural Experiment Station  David Boethel, Vice Chancellor and Director  Louisiana Cooperative Extension Service  Paul D. Coreil, Vice Chancellor and Director  Pub. 3085-F 09/08</p> <p>Issued in furtherance of Cooperative Extension work, Acts of Congress of May 8 and June 30, 1914, in cooperation with the United States Department of Agriculture. The Louisiana Cooperative Extension Service provides equal opportunities in programs and employment. This institution is an equal opportunity provider.</p>