REAL ESTATE CENTER

homeowner's guide

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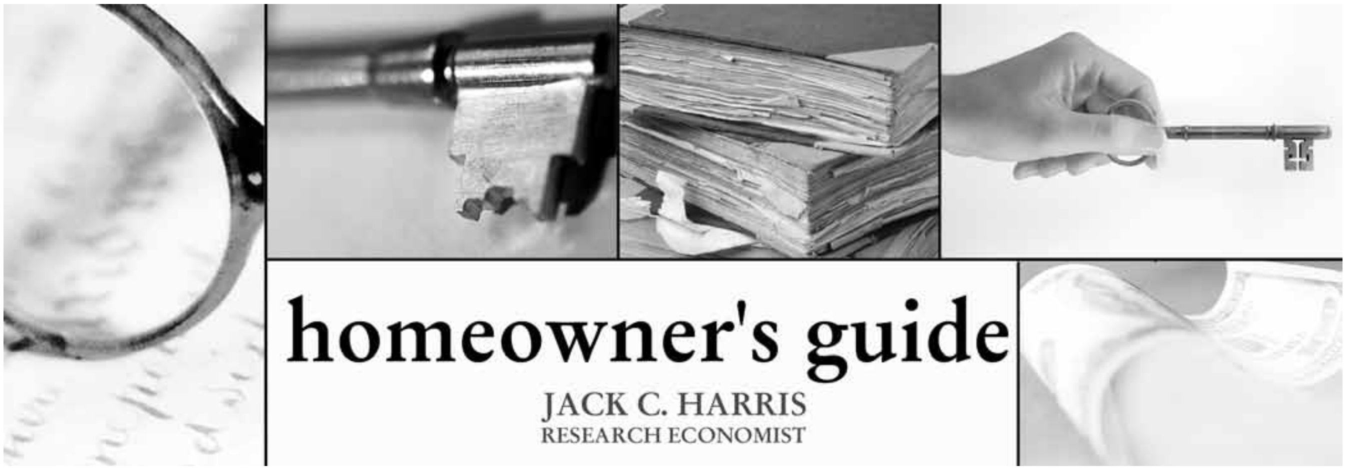

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REAL ESTATE CENTER
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owning a home

Unlike renters, homeowners bear the responsibility for all repairs to the property (although some condominium repairs are handled by the homeowners association), property taxes and other levies against the property, such as homeowners association fees, mortgage payments and hazard insurance. These obligations are necessary to maintain the property in good condition and protect your ownership interest.

Properties that gain value benefit the owner when it is time to sell. Therefore, you should be interested in maintaining, and even enhancing, the attractiveness and quality of your home.

Owning a home also offers tax advantages. Some of these are useful immediately, and others are valuable when selling.

routine maintainance

Owning a home differs from renting in the greatly expanded scope of maintenance responsibil- ities. Modern homes are becoming more and more complicated, which means there are more and more things that can go wrong. But a diligent maintenance program can eliminate many problems.

Certain maintenance tasks recur seasonally. Spring is the traditional time to clean out storage areas; summer is the intensive lawn-care season, and fall is the time to caulk and paint. Developing a list of perennial chores can help you budget your time and keeps important tasks from being overlooked. Home maintenance tasks that should be on a homeowner's schedule include:

- checking and replacing furnace and air conditioning filters monthly,
- checking air conditioning and heating equipment before summer-winter peak usage seasons begin,
- draining water heater semi-annually and

- inspecting and possibly replacing caulking around windows and doors annually.

An effective maintenance program depends on the style and age of the home. The program should be designed to protect the home against damage from:

- infestation from insect and animal pests,
- weather and
- system failures, such as leaky plumbing or other equipment.

Further maintenance efforts should be aimed at:

- keeping the home operating efficiently,
- making the home comfortable and
- maintaining an attractive living space.

Fix or replace? When some component of your home is not in good working order, you must decide whether to repair it or replace it. Factors to consider are:

- the cost of replacement versus repair, including the cost of disposing of the old equipment;
- sentimental or antique value of existing equipment;
- how long repair will extend the useful life of the equipment, compared to how long you intend to live in the home;
- the improvements in convenience, comfort, efficiency and appearance gained by replacing the old equipment; and
- any added resale value from the improvement.

Replacing something usually costs more initially but may save operating costs in the long run. If you can accurately estimate these savings, you can do a financial comparison. First, calculate the additional costs of replacement over repair. If you were to put that amount of money in a bank certificate of deposit (CD), how much would it earn? If the savings in operating costs are not as great as the CD interest, you might be better off having the equipment repaired and putting the extra money in a CD. Keep in mind, however, that replacement often means the equipment will last longer than the repair.

Do it yourself or contract out? Another question is whether you should do the repairs or hire a professional. The answer depends on your personal skill level, confidence and available time.

Doing your own repairs can be rewarding. You save money and learn how your home is constructed, not to mention the gratification of knowing you did it yourself. Other problems may be discovered during the repair process, allowing you to repair them before they become more serious.

On the other hand, professionals offer guarantees and should replace, without cost, any defective or improperly installed equipment within a specified time. Some repairs and replacements require special permits that may make it necessary to hire licensed repair professionals. Some replacement parts and equipment are difficult for laypersons to obtain or require a special license to purchase or install.

Do-it-yourself repairs on complex or hazardous building components such as electrical and plumbing systems may introduce liability problems when the house is sold. If one of these systems fails, and it can be shown that the cause was repair work done without proper permits, the seller can be held liable long after the sale is complete.

Hiring the wrong contractor can result in unsatisfactory results and unneeded expense. You can avoid potential problems when contracting for home repair and improvement services by taking a few precautions. Ask for references from acquaintances who have dealt with good contractors or check the National Association of the Remodeling Industry (www.remodeltoday. com or 1-800-611-NARI) for names of reputable companies in your area.

The Texas Residential Construction Commission (877-651-8722) registers residential builders and contractors and has a complaint file going back to late 2003. Also check on the type of liability insurance carried by the contractor so you are not exposed to liability should someone be injured during construction.

If you want the improvement to look a certain way or be constructed of specific materials, stipulate this in a written contract before the project is started. Often, problems result from the contractor misunderstanding the homeowner's expectations.

It is also a good idea to retain a portion of the contractor's payment until you are satisfied with the finished results and know that all subcontractors have been paid. To be safe, it is recommended that final payment be withheld until the contractor and all subcontractors provide release-of-lien statements which absolve you of all further obligations.

If you are talked into a home improvement project by a persuasive contractor, you may be able to get out of the deal if you act quickly. The Federal Trade Commission has a "cooling off rule" that allows homeowners to cancel a contract for any reason within three days of its signing. The rule applies to contracts that are initiated and completed within the home of the consumer. In other words, if someone comes to your home and sells you on a project, you sign a contract and later decide it was not such a good idea, you can cancel and recover whatever deposit you paid. Contact the commission for more specifics.

home improvements

Unlike repairs, improvements add a new feature to the home or upgrade an existing feature. Most improvements, such as adding a swimming pool or extra room, increase the enjoyment or usefulness of the home.

Although the primary motivation behind home improvements is personal use, most homeowners also hope to increase the home's value. However, improvements rarely increase a home's value by an amount equal to the cost. In other words, you cannot expect the entire cost of most improvements to be regained in a higher resale price. Some improvements may even decrease market value by requiring more operating cost and effort than benefits. For information on how much specific improvements add to value, see the Cost Vs. Value Report published by Remodeling Online (www.remodeling. hw.net/).

Improvements that bring the property into conformity with the neighborhood add most to property value. The home's location limits its potential market value; prices in a given neighborhood vary within a narrow range. When a homeowner adds features that are characteristic of the neighborhood, value is added. However, improving beyond the neighborhood standard may not be rewarded in a higher selling price.

When the cost of an improvement is substantial, the homeowner may need financing. Several sources are available. Sometimes the contractor finances the project. This alternative is convenient but is often the most costly option.

Interest can be reduced by mortgaging the house as security on the loan. One way is to add a second mortgage subordinate to the current mortgage. However, you may be able to reduce the interest rate further by remortgaging the existing loan for an amount sufficient to pay off the old balance and pay for the improvement.

However, remortgaging has several possible drawbacks. First, the front-end costs of refinancing may be high. The borrower may have to pay for a new appraisal, credit report, loan processing fee, survey and title insurance, as well as loan discount points for origination of the new loan. Second, if interest rates have risen since the old loan was originated, refinancing could substantially raise the house payment. On the other hand, if rates have declined, refinancing may prove advantageous, allowing you to finance the project while reducing your overall housing costs. If a second mortgage is obtained, the original loan is unchanged.

When improving or adding to your home, retain all paperwork showing the nature and cost of work done. This is useful if the home is sold and taxes have to be paid on any realized gain. (See Selling a Home.)

tax considerations

Property taxes. Major funding for local government and public school systems comes from *ad valorem* taxes. *Ad valorem* means that taxes assessed are based on property value. Each year, your local tax assessment office estimates the value of your property. A tax rate is then applied to this assessed value to determine how much tax you owe. Typically, a different rate applies for each local taxing authority, including the city, county, school district and any special purpose jurisdiction in the area.

Homeowners may be eligible for a homestead exemption on the assessed value used to calculate school district taxes. This exemption reduces your tax bill, but you must apply for the exemption initially. Your local tax appraisal district office has more information.

If you think your home's assessed value is too high, you can appeal to the tax appraisal district for a reappraisal. The burden of proving the contention is entirely yours. You must back up your appeal with documentation. To learn more about this process, or property taxes in general, order technical reports 1056 and 1192 from the Real Estate Center by calling 1-800-244-2144.

Income taxes. Two primary tax advantages are available to homeowners: deduction of certain home-related expenses against taxable income and exemption of all or most of any capital gain realized when the home is sold. (See the tax section under Selling a Home for more information.)

Interest paid on home mortgage loans and taxes levied against the value of the home are eligible expenses for itemization on individual income tax returns. The company or institution handling your loan will provide a statement of how much interest you paid during the tax year, as well as the amount of property tax paid out of your escrow account (an account maintained by the lender to cover expenses such as taxes and insurance and funded through a portion of the monthly loan payment).

If your mortgage loan was transferred to another company during the year, or if you refinanced the loan, you will receive statements from both the previous and current servicers of the loan. If you pay property taxes directly rather than through an escrow account, keep your tax receipt and canceled check as documentation of the amount of taxes paid.

For the tax year in which you purchased your home, you can deduct any discount points paid at closing, including points paid by the seller. Sellers occasionally pay part or all the points on a loan to expedite the sale or to sell a home financed through a Veteran's Administration (VA) loan, which limits how many points the buyer can pay. To find and verify the amount paid, look at the settlement statement received at closing.

Other rules on deduction of points are:

- The loan must be for the purchase or improvement of the home, not refinancing. (Points paid to refinance a mortgage are not immediately deductible; they must be spread over the life of the new loan.)
- Points paid must be typical for mortgages in your area. Additional points paid to reduce the interest rate on the loan cannot be deducted in the year of purchase. These points must be amortized, like points paid to refinance.
- If you finance points into your loan or if points were paid by someone else, you must have contributed funds (such as down payment and other closing costs) at least equal to the costs of the points. For example, if your home was purchased with a VA loan covering 100 percent of the house price and the seller paid some of the points, you may not have contributed enough cash to deduct those points.

The amount of deductible mortgage interest may be limited, depending on the size of the loan and when it was obtained. Interest paid on any mortgage originated before October 13, 1987, is fully deductible. If the loan was taken out after that date, interest only on outstanding principal of $1 million or less can be deducted. Home equity loans originated after October 13, 1987, are limited to $100,000 to be fully deductible.

mortgages

Monitoring your home mortgage loan is important for tax purposes as well as other reasons. The lender will send a yearly statement showing the amount of interest you paid during the year (for itemization purposes) and the outstanding balance of the loan. Check all loan transactions for accuracy, particularly if you make additional payments toward the loan principal.

How your monthly payment is figured. Your mortgage payment book or monthly statement shows how your payment is divided between the escrow payment and the principal and interest (P&I) payment.

Note the principal balance at the beginning of the year. Loans are designed so that each monthly payment of principal and interest is identical (on adjustable loans, the payment is constant as long as the interest rate is not changed). However, the amount needed to pay accrued interest varies with each payment. It is equal to the outstanding principal at the beginning of the month times the rate of interest divided by 12 (which converts it to a monthly interest rate).

Interest payment = Principal balance x 1/12 of annual interest rate

The remaining portion of the P&I payment goes toward the principal balance of the loan, making that balance smaller the next month. Consequently, the interest payment declines. Here is an example:

Principal balance beginning of the month	$75,000
Annual interest rate on loan	8%
Interest due end of month (75,000 x .08/12)	500
Total P&I payment	600
Principal retired during month (600 – 500)	100
Principal balance at end of month (75,000 – 100)	$74,900

Repeating this procedure shows that the interest due the following month is $499.33 ($74,900 x .08 /12).

Making additional payments toward loan principal. If you wish to pay off your mortgage loan more quickly, you may be able to make additional payments toward the principal. Most mortgage loans allow borrowers to pay all or a portion of the principal at any time during the loan term without penalty. The coupon sent with the monthly payment may have a place to indicate an extra payment.

By making additional payments to principal, the loan term is shortened, and the amount of interest paid on the loan is reduced. Monthly payments remain the same, but the amortization of principal is accelerated.

You can calculate the effect of extra principal payments using the previous example. Suppose you decide to add $500 to your normal $600 payment, earmarking the extra amount for principal. The interest due is still $500 for the month, but now your total payment is $1,100. Therefore, the total amount going toward the principal balance is $600 ($1,100 – 500). Your outstanding balance is reduced to $74,400. Interest due in the following month is $74,400 x .08 / 12 = $496, leaving $104 for principal retirement, assuming you make a normal payment that month. If your mortgage payments are paid automatically through a bank draft, contact the lender to find out how to make special payments to reduce principal.

If your loan is sold to another lender. Most home mortgage loans are sold by the lender shortly after they are originated, usually to another lender or a company specializing in the servicing of loans (collection of payments and administration of the loan). When this occurs, you should first receive a notice of the change from your current lender. Then you should receive a notice from the new lender, along with a new set of payment coupons, if you pay by that method.

If you receive a letter from another lender requesting that you send future payments to a new address before being notified by your current lender, contact your lender to verify the change. The letter may be fraudulent.

Verify your mortgage balance with the new lender. Any difference should be investigated. If necessary, point out discrepancies to your former lender and ask for an accounting. Also determine whether your escrow balance has been transferred correctly.

At the end of the tax year, you should receive statements from both your current and previous lenders, showing the amount of interest you paid to each lender during that year.

For a thorough look at financial issues, order a copy of the *Consumer's Guide to Mortgage Finance*. See page 20.

home equity loans

In 1997, Texas voters amended the state constitution to allow homeowners to encumber the equity in their homes for any purpose. Before the referendum, you could mortgage your principal residence, or "homestead," only for the original purchase of the home, for home improvements or to settle tax liabilities.

A home equity loan is a second mortgage in which the lender's claim to the property in case of default is secondary to that of the first mortgage lender on the borrower's residence. When a home equity loan is used, a portion of the homeowner's equity is converted to debt. Texas law limits the total amount of debt to 80 percent of the property's current value for a home equity loan or when the loan is refinanced for an amount greater than the existing debt.

The borrower receives the principal of the loan in cash that can be used for any purpose. Interest and principal are repaid in monthly payments just like any mortgage loan. "Line-of-credit" home equity loans, which are similar to credit card accounts, are not authorized under Texas law.

Home equity loans often are used to get rid of a homeowner's existing unsecured debt, such as credit card balances. Interest rates on home equity loans typically are lower than on unsecured debt. In addition, the interest paid on equity loans of $100,000 and less is an eligible itemized deduction for federal income tax purposes.

A special type of home equity loan, the Reverse Annuity Mortgage (RAM), can be used by homeowners or their spouses who are age 55 or older and who have substantial equity in their home. A RAM allows these homeowners to liquidate their equity into a stream of monthly income and still live in the home. When the home is sold or when the homeowner no longer resides in the home, the loan balance, including all accrued interest, becomes due. This type of loan can provide supplemental income for older homeowners.

refinancing

If your mortgage loan allows prepayment, you may find it beneficial to refinance your mortgage loan to get a lower interest rate. If you have a fixed-rate loan, refinancing will reduce the monthly payment, shorten the term of the loan or both. If you have an adjustable rate loan, you may want to take advantage of lower interest rates to lock in a rate by converting to a fixed-rate loan. The payments on adjustable loans automatically decline when rates fall, but there is no protection from rates rising again.

Homeowners who have accumulated substantial equity in their homes may be able to obtain cash by refinancing their mortgage. The new mortgage may be larger than the existing debt, thereby allowing the homeowner to take some cash out of the house in return for a higher debt load. Under state law, the new loan cannot be for more than 80 percent of the home's current value. Generally, the amount owed on a mortgage declines as a percentage of home value over time because the loan is being gradually paid off, and the home may have increased in value.

When the mortgage loan is less than 80 percent of value, the homeowner may access that equity through refinancing or with a home equity loan, which is subject to the same 80 percent limitation on total mortgage debt. Whether refinancing or a home equity loan is better for you hinges on how market interest rates compare to the interest rate on your existing loan.

If interest rates are equal or higher in the market, it makes sense to leave the existing loan intact and get a home equity loan. If market rates have fallen to less than the interest you pay on your existing loan, refinancing the first mortgage can raise cash and reduce interest expenses simultaneously. Remember, however, that increasing the debt on the home means lower profit when you sell the home.

When you refinance your mortgage loan, you are essentially receiving a new loan to pay off the old one. This often means that you are required to pay an application fee, appraisal, discount points, survey, title policy and various other fees. At times when lenders are competing for your business, they may waive some fees, but you will still be responsible for some costs. To make refinancing worthwhile, you need to lower your payments sufficiently to recover these expenses within a reasonable time.

To decide whether to refinance or not, compare the costs of re-financing to the discounted stream of monthly savings for the expected length of the loan. An easier way is to calculate how many months of savings are needed to add up to refinancing costs with no discounting. If you expect to stay in the home without refinancing for at least as long as the payback period, the refinancing is feasible.

For example, assume a current loan has a balance of $75,000, an interest rate of 10 percent and remaining term of 25 years (the balance and term are as of the last payment made, not the original amount and term). The P&I monthly payment is $681.53. The loan can be refinanced at 8 percent for 30 years, leaving a P&I of $550.32. However, the change costs $2,000. How long would it take to recover the cost of refinancing?

The monthly savings is $131.21 ($681.53 - $550.32). Divide the $2,000 cost by the monthly savings to get 15.24 months. Therefore, without discounting or taking into account income tax effects, you would have to keep the new loan in this example for slightly more than a year to break even.

selling a home

Whether you sell your home yourself or work with a broker, home selling is a complicated process. You may be asking yourself the following questions:

- What is involved in selling a home, and what can a broker do for me?
- How can I make my home more attractive to buyers?
- What will it cost to sell a home?
- Should I offer to finance the sale?
- What are the tax implications of the sale?

the selling job

No law requires a seller to hire a broker to sell a home. Owners can legally advertise and show their homes without professional representation, and can accept offers, thus avoiding the expense of a brokerage commission. Sales contract forms may be purchased from the Texas Real Estate Commission or prepared by an attorney.

However, most home sellers seek the help of a professional broker. In many cases, they turn to brokers after they have tried unsuccessfully to sell the homes themselves.

Setting a price. Pricing is a critical element in a successful sale. If the price is too high, many buyers will not even consider the house. Conversely, a too-low price shortchanges the seller,

Sample Comparative Market Analysis

Subject Property

Address	Bedrooms/Baths	Lot Size	Heated Area	Age
200 Oak St.	3/2	5,000	1,650 square feet	12 years

Comparable Sales

Address	Bedrooms/Baths	Lot Size	Heated Area square feet	Age	Price	Price per square feet
310 Oak Street	3/2.5	5,200	1,800	13 years	$85,000	$47.22
500 Pine Street	3/2	4,800	1,600	10 years	80,000	50.00
2100 Tree Avenue	4/2.5	5,000	2,100	20 years	95,000	45.24
300 Main Street	3/2	3,500	1,400	35 years	73,000	52.14
420 Oak Street	3/2	5,000	1,750	5 years	87,000	49.71

Additional Factors

310 Oak Street	Custom kitchen, dining room
500 Pine Street	In-ground pool
2100 Tree Avenue	Large family room, three-car garage
300 Main Street	High ceilings, fireplace
420 Oak Street	Well-landscaped yard, greenhouse

Average price per square foot of comparables: $48.86
Value of subject property based on square-foot area: $80,619
Suggested asking price: $82,000

because buyers rarely offer more than the initial asking price. Lowering the price after an initial period of market exposure may extend the time required to attract a buyer.

The best approach is to price the home based on its market value with a small margin for negotiation. To calculate this, you need to know the actual sales prices of similar homes that have sold recently. This information is sometimes included in deed records, which are available at the local courthouse. More often than not, however, sales prices are not reported in the deed.

You also need to know what factors influence a home's market price, such as size of the house, neighborhood and condition of the property, among others.

A broker or salesperson will prepare a comparative market analysis to help you price your home. The analysis compares recent sales data from several similar homes in your neighborhood or close by, and adjusts the prices for differences in house characteristics. A broker also may have access to sales data from the Multiple Listing Service (MLS).

A broker's personal experience in selling homes in the local market is helpful in judging the appeal of your home versus the homes used in the comparative market analysis. While the analysis does not have the legal validity of a professional appraisal, it is often provided free and without obligating you to sign a listing contract.

Marketing the home. The simplest marketing method is posting a "for sale" sign in your front yard. Classified advertising is even more effective. Brokers typically do both in addition to other types of advertising. When a home is listed in the MLS, information about it is provided to all member brokers and their sales staffs.

Your broker or salesperson also may conduct a tour of the home for interested brokers to increase the number of eligible buyers who see and consider your home. During peak home-selling periods, your salesperson may sponsor an open house for prospective buyers to view the home.

Showing the home. Prospective buyers–even those who are not serious about buying–will want to see the home. If you sell your own home, you will have to arrange for interested buyers to view the home, usually at the buyer's convenience. During the visit, you must allow the prospective buyer to look closely and freely at all areas of the interior and exterior of the home. You must be available to answer questions. This can be a time-consuming process and an imposition on you.

Brokers and their staffs are experienced in showing homes, and offer several advantages over do-it-yourself tours. They will screen buyers and show the house only to buyers who can afford it. They are trained to point out the best features of a home, including many you may take for granted.

Also, buyers may feel less inhibited about viewing a home with a broker than with the owner. Usually, the owner's absence is preferable when a salesperson is showing the home. A broker or salesperson will try to dispel a buyer's indecision by answering questions and will be prepared for the next step in the process–the offer.

Negotiating a sale. A legally binding offer must be made in writing and should be accompanied by an earnest money deposit. A contract is not binding on the seller until he or she signs it. In many cases, the buyer will offer less than the asking price and will attach several conditions to the sale. As the seller, you have to decide how much you are willing to cut your asking price and what conditions to accept. A broker can assist you in this by:

- providing contract forms to the buyer,
- advising you whether or not to counter the prospective buyer's offer,

- communicating with the buyer to expedite negotiations and
- arranging with a title company to escrow the earnest money deposit and handle the closing.

Several rounds of offers and counteroffers are not uncommon before a final sales agreement is reached.

If your home generated a lot of interest among buyers, you may find buyers willing to submit backup contracts after you have signed a contract with another buyer. The backup contract immediately goes into effect when and if the primary buyer fails to follow through with the sales contract. If there are several backup contracts, they are ranked in priority. When one contract falls through, the next one in priority takes effect. This priority is set through negotiation, not necessarily the order in which the offers were submitted. Having a backup means that the property need not be put back on the market should the original transaction not be completed.

Preparing for closing. Between contract signing and closing, you must prepare your home and property for transfer of ownership. You should inform your mortgage lender of the impending sale so that the mortgage can be released at closing. By providing adequate notification, you may avoid additional interest costs. A prepayment penalty may have to be paid on the loan.

You will need to contact a title insurance company to back up the deed to be given to the buyer. The title company will search public records before issuing a policy. If a problem is found, you must take steps to clear the title. Usually this means obtaining quit claim deeds from those with any legal claim to the property.

You also are responsible for completing any repair or treatments necessary to comply with the buyer's conditions as stated in the sales contract.

Brokers are experienced in orchestrating the entire sales process. They make the contacts necessary for setting up the closing and can work with the buyer or the buyer's salesperson to ensure that the sale closes.

While brokerage commissions may seem high to you, the services offered by a broker or salesperson are extremely valuable. Unless the sale is successful, no commission is paid, except in unusual cases when the sale is not completed through some fault of the seller. A broker's service is almost risk-free, as the seller loses only the time spent during the listing contract term.

Sellers usually recover at least part of the commission by receiving a higher price through the broker's efforts. A broker has access to more buyers and may be able to drive a better bargain than the seller. A home for sale by its owner may give the impression of a bargain property to many buyers who will be encouraged to offer less than they might otherwise. In other words, buyers often want to share in the "savings" they perceive the seller is receiving by not using a broker.

You may choose a broker or salesperson through referrals from acquaintances, by investigating the reputation of local firms or franchises or by responding to advertisements. The best salesperson for your property will:

- prepare a marketing plan targeted at the most likely type of buyer for your house and neighborhood,
- have experience and be knowledgeable in selling homes in your home's price range,
- keep you informed of progress in the marketing plan,
- suggest ways that the home's appeal could be improved and
- recommend a listing price based on current market information.

listing contracts

Sellers who use a broker must sign a listing contract. This agreement allows the broker to market your home for a specified period. If your broker is successful in presenting a ready (as in ready to buy now), willing (agreeable to the sales terms) and able (can raise the money necessary and are of legal age) buyer, he or she earns a commission based on a percentage of the sales price.

Ilyce Glick, author of *100 Questions Every Home Seller Should Ask,* suggests interviewing prospective sales agents and posing the following questions:

- How much experience do you have in selling homes?
- Are you full time or part time?
- How many listings have you sold in the past year? Were they in the same style and price range as my home?
- What homes in my neighborhood have you shown or sold in the past year?
- How many media outlets will you use to advertise my home?
- Will you personally accompany other agents when they show the house, or will you use a lockbox so they can access the home?
- How often will you update me on sales progress?

In addition, try to employ an agent that seems to share your thinking as to how the home should be marketed.

Sales rights. Several types of listing agreements are used, but most brokers insist on an "exclusive right to sell" arrangement. This means that during the term of the contract the broker earns a commission regardless of who actually finds the buyer. This protects the broker from sellers who might try to avoid paying the broker's commission by arranging to sell to a buyer on the side. If a seller signs a listing contract and then during the term of the agreement decides to sell the house to his brother-in-law, the broker still earns a commission.

Multiple Listing Service (MLS). A variant on the exclusive right to sell agreement is the listing contract that allows the property to be listed with the MLS. In most cases, being MLS-listed is to the seller's advantage. Any MLS member may present a buyer and earn a commission. However, the commission is split between the listing broker and the selling broker. If the seller or the listing broker finds a buyer, the listing broker receives the entire commission.

Disclosure of agency. Texas law requires all real estate brokers and salespersons to disclose who they represent in sales transactions. There are three possibilities:

- The broker represents the owner. The seller has signed a listing agreement with the broker or the broker's firm.
- The broker represents the buyer. The buyer has a contract with the broker. A buyer's broker may still collect a commission from the seller if the broker produces the buyer for an MLS-listed property.

Approved by the Texas Real Estate Commission for Voluntary Use

Texas law requires all real estate licensees to give the following information about brokerage services to prospective buyers, tenants, sellers and landlords.

Information About Brokerage Services

Before working with a real estate broker, you should know that the duties of a broker depend on whom the broker represents. If you are a prospective seller or landlord (owner) or a prospective buyer or tenant (buyer), you should know that the broker who lists the property for sale or lease is the owner's agent. A broker who acts as a subagent represents the owner in cooperation with the listing broker. A broker who acts as a buyer's agent represents the buyer. A broker may act as an intermediary between the parties if the parties consent in writing. A broker can assist you in locating a property, preparing a contract or lease, or obtaining financing without representing you. A broker is obligated by law to treat you honestly.

IF THE BROKER REPRESENTS THE OWNER:
The broker becomes the owner's agent by entering into an agreement with the owner, usually through a written - listing agreement, or by agreeing to act as a subagent by accepting an offer of subagency from the listing broker. A subagent may work in a different real estate office. A listing broker or subagent can assist the buyer but does not represent the buyer and must place the interests of the owner first. The buyer should not tell the owner's agent anything the buyer would not want the owner to know because an owner's agent must disclose to the owner any material information known to the agent.

IF THE BROKER REPRESENTS THE BUYER:
The broker becomes the buyer's agent by entering into an agreement to represent the buyer, usually through a written buyer representation agreement. A buyer's agent can assist the owner but does not represent the owner and must place the interests of the buyer first. The owner should not tell a buyer's agent anything the owner would not want the buyer to know because a buyer's agent must disclose to the buyer any material information known to the agent.

IF THE BROKER ACTS AS AN INTERMEDIARY:
A broker may act as an intermediary between the parties if the broker complies with The Texas Real Estate License Act. The broker must obtain the written consent of each party to the transaction to act as an intermediary. The written consent must state who will pay the broker and, in conspicuous bold or underlined print, set forth the broker's obligations as an intermediary. The broker is required to treat each party honestly and fairly and to comply with The Texas Real Estate License Act. A broker who acts as an intermediary in a transaction:

(1) shall treat all parties honestly;
(2) may not disclose that the owner will accept a price less than the asking price unless authorized in writing to do so by the owner;
(3) may not disclose that the buyer will pay a price greater than the price submitted in a written offer unless authorized in writing to do so by the buyer; and
(4) may not disclose any confidential information or any information that a party specifically instructs the broker in writing not to disclose unless authorized in writing to disclose the information or required to do so by The Texas Real Estate LIcense Act or a court order or if the information materially relates to the condition of the property.

With the parties' consent, a broker acting as an intermediary between the parties may appoint a person who is licensed under The Texas Real Estate License Act and associated with the broker to communicate with and carry out instructions of one party and another person who is licensed under that Act and associated with the broker to communicate with and carry out instructions of the other party.

If you choose to have a broker represent you,
you should enter into a written agreement with the broker that clearly establishes the broker's obligations and your obligations. The agreement should state how and by whom the broker will be paid. You have the right to choose the type of representation, if any, you wish to receive. Your payment of a fee to a broker does not necessarily establish that the broker represents you. If you have any questions regarding the duties and responsibilities of the broker, you should resolve those questions before proceeding.

Real estate licensee asks that you acknowledge receipt of this information about brokerage services for the licensee's records.

Buyer, Seller, Landlord or Tenant | Date

Texas Real Estate Brokers and Salespersons are licensed and regulated by the Texas Real Estate Commission (TREC). If you have a question or complaint regarding a real estate licensee, you should contact TREC at P.O. Box 12188, Austin, Texas 78711-2188 or 512-465-3960.

EQUAL HOUSING OPPORTUNITY

- The broker is an intermediary. Neither the owner nor buyer commands the loyalty of the broker, who acts to complete the transaction. Both parties agree to enlist the services of the broker.

It is important for both the buyer and seller to know who the broker or brokers represent. It is a violation of professional ethics for a broker to convey information that weakens the negotiating position of the party they represent, and it is the broker's duty to pass on information that is beneficial to his or her clients. Be careful in divulging information to a broker representing the opposite party in sales negotations.

Commission rates. Commission rates are open for negotiation between the seller and broker. In practice, however, most brokers offer standard rates–except in extraordinary cases. For example, a high-priced property may qualify for a lower rate or an unusual or hard-to-sell property may require a higher rate. Some brokers may offer a limited set of services for a lower commission (so-called discount brokers). If the commission rate is less than the normal rate, find out what services are included under the contract.

Listing term. The length of time of the agreement is negotiated as part of the listing contract. The listing broker wants a long period to adequately expose the property and to protect against lost commissions after the term expires, while the seller wants a shorter term so that an unsatisfactory broker can be replaced promptly. Generally, you should negotiate for the shortest listing term the broker offers.

working with a broker

While a broker can relieve you of much of the work associated with selling your home, there are many things you can do to increase the effectiveness of your broker and help ensure a successful sale. For example:

- Make a list describing your home's special features and selling points and give the list to your broker to be used in promotional materials.
- Be willing to spend time, effort and money to get your home in shape to sell. Your broker can suggest things to enhance the home's appeal and can provide feedback from buyers who visit the home. You are responsible for authorizing or completing the work.
- Inform your broker of any important defects in the property. Sellers are required by law to disclose any known defects to potential buyers. If there are no serious defects, your broker will require you to sign a property condition form attesting to the absence of known defects.
- If you are living in the home, prepare for buyers' visits when the broker calls. Keep the house neat. Confine your pets, and have children play where they will not interfere with the showing. If possible, leave the house while the broker shows it. Ask the broker what will work best.
- Let the broker show the home. Some buyers feel uncomfortable "invading" the home when the owner is present, and you may feel uncomfortable, too. Sellers who follow along with the broker and buyer to offer comments or answer questions are usually of little help.
- If buyers come to the house without an appointment, refer them to the broker. If they are legitimate sales prospects, they will not mind going through the broker. If they object, they simply may be trying to gain entrance to the home under false pretenses.
- Set a realistic asking price. You may want a higher price than that suggested by the market analysis, but aggressive pricing can prolong the time the home is on the market and possibly result in a lower sales price.
- Have information on hand that will interest buyers, such as recent utility bills or receipts for repairs and improvements. These can be selling points, particularly if the home is more energy efficient than most.
- Stay in touch with your broker. Ask whether prospective buyers who have viewed the home have offered comments that might suggest a need to lower the price or make repairs or improvements.
- When a buyer is found, be available and prompt to respond to the offer. An offer can be withdrawn until it is accepted or countered. Offers may be withdrawn if you procrastinate.
- Be reasonable in considering buyers' conditions. Options are common in sales contracts. The option period should be long enough to allow the buyer to have a professional inspection done. The option fee should reflect the cost to the seller of taking the property off the market during the option period. While contingencies based on the buyer selling an existing home are not uncommon, accepting such a condition may discourage further showings of the home because other offers are subordinate to the first contract. Contracts requiring the seller to finance the sale or pay part of the buyer's financing costs are less common and should be agreed to only after careful consideration.
- Clear any title defects and make all required repairs before closing. Sales have been lost because sellers were not ready for the closing.

presenting a home for sale

The time and money you spend getting your home ready to sell can shorten the time before you receive an offer and may increase the size of the offer. Major renovations may not be required; a few well-chosen repairs and cosmetic improvements may do the trick. Even a home in first-class condition probably needs a thorough cleaning to show at its best.

Market category. Work with your broker to decide which of the following market categories your home falls in.

- ***Showplace.*** Homes with dramatic features and style should be marketed as unique, with an emphasis on quality.
- ***Standard home.*** A well-cared-for home without special features appeals to the broadest segment of the market. The emphasis for these homes should be on convenience, comfort and spaciousness. Everything should be in good working order and meticulously clean.
- ***Home with potential.*** A home with problems that the seller is not prepared to fix can be presented as a project for the handy buyer. Emphasize potential qualities–such as large rooms, a good location or an especially attractive site–that can be enhanced with some work.
- ***Fixer-upper.*** This category is for homes with major problems that the seller considers not worth fixing. The home should be presented "as-is" with the emphasis on its low price. Be aware that selling a home "as-is" does not exempt you from liability for any undisclosed structural defects and unsafe conditions.

Strategic features. Certain features determine how a home shows.

- ***Curb appeal.*** The home must look good from the street. The lawn should be well-manicured and the exterior of the house should look clean and well-kept. Consider adding landscaping features to sharpen curb appeal.
- ***Entrance.*** The entryway to the house should be in good shape, with relatively fresh paint, uncluttered and inviting.
- ***Lighting.*** Windows should be clean, with window shades left up to maximize natural lighting. All interior lights should be working.
- ***Spaciousness.*** While furniture and decoration can help a home's appearance, too much can be distracting and make the house seem smaller. If rooms are crowded with furniture, consider putting some of it in storage. If the home is unoccupied, add furniture to enhance appeal.

Thoroughly clean your home and remove clutter before the first buyer–or even a broker–sees it. Make all obvious repairs, such as broken window glass or detached gutters. Buyers assume visible faults are a sign of poor maintenance. New paint can enhance a home's looks, particularly on exterior siding and trim. You may want to defer major replacements, such as roof or carpet, unless the existing feature is extremely deteriorated.

A properly maintained home is more attractive and inviting to prospective buyers. If possible, downplay awkward or unsightly features. However, do not try to cover up faults that are dangerous or potentially destructive. For example, if the roof leaks, either have it fixed or disclose the problem to the buyer. Do not merely replaster and paint over the damage. When the home is listed, you will be required to sign a disclosure of condition statement. If you are aware of any structural or other significant defects in the property, you must disclose the nature of the problem. If you knowingly conceal a flaw, you are open to civil suit under the Texas Deceptive Trade Practices Act.

If your home was built before 1978, there is an additional requirement to disclose whatever you know about the presence of lead-based paint. This type of paint, which can poison anyone digesting bits that flake off, was banned by the federal government in 1978. If your home is eligible, you also have to give the buyer a special booklet prepared by the National Safety Council (go to www.nsc.org/ehc/lead.htm for complete details and to download the booklet) and give the buyer a ten-day period to inspect the home.

If you are selling an older home, you may want to purchase a home warranty that would cover repairs for a year or more after the sale. Warranties are fairly common on new homes and are increasingly used with existing homes, particularly when home sales are slow. A warranty can help overcome buyer reluctance and may lower the chance of lawsuits resulting from problems that arise after the sale.

When interest rates are volatile, the "Lock N Sell" program offered by Countrywide Mortgage Company may help you line up a buyer. You can arrange to lock in an interest rate for up to 30 days. Anyone who buys the home during that time can get the locked-in rate, or market rate if lower, from Countrywide and has an additional 45 to 60 days to close. There is no cost for the program.

Sometimes housing markets heat up and there are more people interested in buying than there are suitable homes for sale. If you are fortunate enough to be selling in such a market, you will likely receive more than one offer. Under these conditions, it is common practice to accept offers even after a contract has been signed. These "back-up" contracts protect the seller in case the first sale fails to close. If the first sale closes, the back-up contract is voided. However, if the first sale falls through, the back-up moves up to take its place. Therefore, you should treat each backup offer as a serious bid for the property and negotiate an acceptable price and terms.

selling cost

At closing, sellers hope to recover their equity investment plus some appreciation. From these proceeds they pay sale expenses. Although specific expenses are commonly paid for by the seller or buyer, all are negotiable. Typical selling costs payable at closing include:

- **Sales commission.** If a broker sells the home, the commission is payable at closing. If a "buyer's broker" is employed, a commission may still have to be paid, but this is negotiated as part of the contract.
- **Loan costs.** This item normally is paid by the buyer but can be shifted to the seller if the seller agrees when negotiating the sales contract. Some government loans restrict the number of discount points that the buyer can pay, so the seller pays the points. When the buyer expects to have difficulty qualifying for a loan, the seller may offer to "buy down" the interest rate on the mortgage loan. In other words, the seller pays additional discount points to reduce the contract interest rate.

- **Title insurance premium.** The seller commonly provides a title insurance policy to convey a good title to the buyer. Most lenders insist on title coverage. The premium varies with the value of the home. In most cases, two policies are written. The first, customarily paid for by the buyer, covers the interest of the lender and pays up to the amount of the mortgage debt. The second covers the interest of the buyer and pays up to the market value of the property. The seller usually pays for this policy.
- **Repairs.** If a professional inspection revealed needed repairs, the buyer may ask the seller to pay for some or all of this work. The seller may agree to complete the repairs before closing, lower the price by the cost of the repairs or provide an allowance for the repairs.
- **Prorated expenses.** At closing, ownership and responsibilities for various operating expenses are transferred. Because some of these are prepaid (such as insurance premiums) or paid in arrears (property taxes) for the calendar year, an account of payments and liabilities up to the time of the closing is necessary. In practice, these expenses and liabilities are prorated according to when the closing date falls in the year. The seller receives credit for the prorated expenses that were prepaid but must pay a prorated amount for the estimated expenses due at the end of the year.

  For example, suppose the closing takes place on February 21. The seller has owned the property for 52 of the 365 days in the year. If $1,000 in property taxes are expected to be due at the end of the year, the seller is liable for a prorated share of this expense. The $1,000 expense is divided by 365 and multiplied by 52 to calculate the seller's prorated share of taxes. In this example, the seller's share of the property taxes would be $142.50, and the buyer would receive a credit in that amount at closing to compensate for anticipated taxes.
- **Miscellaneous fees.** Various fees and charges are collected for items such as title search, escrow fees, carrier service costs, document preparation and legal filings.

A broker can provide an estimate of closing expenses when your home is listed. Before closing, you may receive a more detailed, accurate list based on the sales contract and tasks completed in the interim. At closing, you will receive a copy of the settlement statement (see the Real Estate Center's *Home-Buyer's Guide*) with all expenses itemized.

financing the sale

Most home sales are financed through established mort-gage lenders, including mortgage bankers, savings and loan associations or commercial banks. However, sometimes the seller provides all or part of the financing. Usually, the seller receives a limited cash down payment and a note promising to pay the balance of the sales price in a stream of periodic payments. The note is secured by a mortgage on the property. Owner financing may take several forms.

- **Assumption of existing mortgage.** The buyer assumes responsibility for the existing debt with no change in the terms of the loan. The existing mortgage loan contract must include a provision allowing such assumptions to occur. The lender may have the right to qualify the new borrower and charge a nominal fee for the transfer.
- **Wrap-around mortgage.** The seller remains liable for the existing debt while making a loan to the buyer, often at a higher rate of interest. The seller collects payments from the buyer each month and pays the original mortgage payment out of the proceeds. The mortgage contract must allow such an arrangement, and the lender must be informed that the home has been sold.
- **Seller second.** The seller makes a second mortgage to supplement other financing. This is often used when the existing mortgage is assumed but covers an insufficient portion of the sales price. The mortgage taken by the seller is subordinate to the existing loan.
- **Seller first.** The seller provides a first mortgage. The original loan, if there is one, is retired and the seller becomes the primary mortgage holder on the property.

The main purpose of owner financing is to increase the chance of selling a house, particularly when institutional mortgage financing is difficult to arrange. The seller may vary the terms of the loan to accommodate a buyer's particular needs. For example, the buyer may be willing to pay a higher interest rate or sales price in exchange for a lower down payment.

Assumptions and wraparound loans are advantageous to the seller when interest rates in the market are higher than the rate on the existing loan. The seller can derive value, in the form of a higher price, from the below-market rate on the loan.

One drawback to seller financing is that it deprives the seller of the cash that might be needed to purchase another home. The seller may have to negotiate a larger loan to purchase another home than would otherwise be necessary and, when interest rates are high, the costs of the new home will be higher. The seller also takes on the risk that the buyer will default on the loan. Should default occur, the seller must go through the expensive and time-consuming process of reacquiring the property through foreclosure.

For these reasons, seller financing usually is considered an interim strategy until third-party financing either becomes available or becomes less expensive. Typically, seller financing has a relatively short term–three to five years–with a "balloon" payment at the end of the term. The loan payments are based on a longer amortization schedule, but the loan balance becomes due in full at the end of the term.

Assumptions are not as risky as long as the seller ensures that the liability for the loan is transferred properly. If not, the seller may be subject to a deficiency judgment if the buyer later defaults. The main problem with assumptions is the probability that the loan amount is too small to provide all of the financing. That may require the seller to extend a second mortgage to make the deal feasible.

If the seller decides to offer financing, an attorney should prepare the note and mortgage contract. The following must be described clearly:

- exact amount owed and the repayment period,
- payment amount and frequency,
- interest rate charged and amortization schedule for the principal,
- borrower's responsibility for maintaining the property (such as hazard insurance coverage and timely payment of property taxes),
- consequences of late payments (usually a late charge) and borrower defaults and
- the procedure for selling the property or otherwise refinancing the loan prior to maturity.

Sellers must devise a way to collect payments and provide information to the borrower for tax purposes. One option is to turn over the loan servicing to a local lending institution. Usually, the servicer retains a part of the payment as a fee for handling the loan. Alternatively, sellers may want to sell the entire loan and obtain cash for another down payment or expenses.

Even if the seller does not need the cash, he or she may feel uncomfortable in the role of lender. Depending on how the loan is documented and how creditworthy the borrower is, the seller may find a lender willing to buy the loan. Classified advertisements often offer to buy seller-originated loans. Depending on the interest rate charged on the loan in relation to market rates, the seller may receive only a fraction (30 to 80 percent) of the loan's face value.

tax implications of selling

When selling a home, the person or company handling the closing may submit a Form 1099-S to the Internal Revenue Service describing the sale and distribution of its proceeds. If this form is filed, the seller gets a copy. As of May 7, 1997, anyone who sells a principal residence (defined as a home owned and lived in for at least 2 of the last 5 years) can exclude $250,000 of profit ($500,000 for married couples filing jointly) from the sale from federal income taxation. This exclusion may be used once every two years. Unlike the old rules, the law does not require the taxpayer to reinvest in another home. The homeowner can buy a less expensive home or become a renter, if desired. The old, one-time exemption for homeowners over the age of 55 has been repealed by the new rules.

Those who do not qualify under the principal residence rule, who sell a second time within the two-year period or realize a profit greater than the exclusion may have to pay tax on sale profits. "Calculating Profit on Sale of a Home" shows how this profit is calculated for tax purposes. For more information on the tax treatment of home sales, see the following Real Estate Center publications: "Tax-free Exchanges and Sales of Residences" (No. 1546) and "Home Sales Rules Eased" (No. 1630).

Selling costs include all expenses a seller pays at closing, such as brokerage commission and repairs required by the sales contract.

The cost of purchase includes inspections, surveys, title insurance premiums and other costs paid at closing except the down payment and discount points. Cost of improvements covers improvements made by the seller-owner to raise the value of the property, such as enlarging or modernizing the structure or adding amenities to the grounds. Routine maintenance or replacement of worn-out components, such as replacing an old roof, are not included.

Records and expense receipts are important to document all of these improvements. Consult tax records for the years in which previous homes were sold. Look for Form 2119, which details how much, if any, sales profit was deferred from taxation.

In the sample profit calculation, the home seller is single and has lived in the home for longer than two years. However, the gain realized on the sale exceeds the $250,000 exclusion for single taxpayers. Therefore, for the tax year in which the sale took place, tax will be due on the amount that the gain exceeded the exclusion ($283,000 – $250,000 = $33,000). Because the asset has been held for at least 12 months, the capital gain recognized is taxed at the rate of 20 percent (10 percent if the taxpayer is in the 15 percent tax bracket). The taxpayer in the example would owe $6,600 in tax on the sale ($33,000 times 20 percent).

If the home sold for a loss, the homeowner cannot deduct the loss from taxable income.

Current information on reporting the sale of a home can be found at www.irs.gov/forms_pubs/pubs/p523ch02.htm.

Calculating Profit on Sale of a Home

Original purchase price of property	$175,000
Plus purchase cost	2,000
Plus cost of improvements	25,000
Minus capital gains deferred from previous sales	100,000
Adjusted tax basis of home sold	$102,000
Resale price of home	$400,000
Minus selling costs	15,000
Net selling price	$385,000
Minus adjusted tax basis	102,000
Capital gain realized on sale	$283,000
Minus exclusion (single tax payer)	250,000
Capital gain recognized	$33,000

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glossary

Ad valorem tax. Tax based on the value of an asset. Local property taxes are ad valorem taxes based on the assessed value of privately held real property.

Adjustable Rate Mortgage (ARM). Mortgage loan that allows the lender to change the interest rate periodically in conjunction with a specified index. The interest rate applied to loan payments varies as interest rates in the market change.

Amortization. Reduction in the amount of principal owed on a loan as payments are made over time. An amortization schedule indicates how much principal remains unpaid after each payment.

Appreciation. Increase in value of a home over time (see also *depreciation*).

Assessed value. Estimate of the market value of a property performed by a central appraisal district. This estimate is used to calculate the owner's property tax bill for the year.

Assumption. Taking over the borrower's responsibility on an existing loan when buying a home mortgaged under that loan. The old loan may retain its current interest rate or the lender may have the authority to change the rate. Loan assumption often relieves the buyer from obtaining new financing.

Backup contract. A sales contract accepted on a property that is currently under a pending contract. The backup contract automatically goes into effect when the active contract is terminated. Having a backup means that the property does not need to be put back on the market should the current sales contract fail to be consummated.

Basis. Also called *adjusted basis*. For income tax purposes, the acquisition cost of a home. The net purchase cost of the home (including most closing costs) is increased by any improvements made to the home after acquisition and decreased by any gains from previous sales that have been deferred from taxation. The basis is used to compute the gain from resale of the home.

Buy down. Payment of additional discount points to reduce the interest rate on a mortgage loan. Often the payment is offered by the seller to help the buyer qualify for a loan.

Capital gain. Profit realized on the sale of a capital asset, such as stocks and bonds. However, the sale of a home can generate taxable gains that are treated much like capital gains for tax purposes. Gains of as much as $500,000 from home sales are exempt from federal income tax if certain conditions are met. A loss on a home sale cannot be deducted from taxable income.

Closing. Formal transfer of property ownership from the seller to the buyer. A closing meeting is held on the closing date; at this time all funds are paid and dispersed and a deed of ownership is delivered to the buyer.

Commission. Compensation paid to a broker who finds a ready, willing and able buyer. The amount, as specified in the listing contract, is a percentage of the sales price of the home.

Condominium. Form of property ownership in which the individual homeowner controls the interior of the structure while the exterior plus any common areas are controlled by a homeowners' association. The homeowner is a voting member of the association and is obligated to support its activities through a monthly fee. Bylaws govern use of the common areas.

Contract interest rate. Interest rate that determines the amount of the monthly payment devoted to interest. A monthly mortgage payment has three parts: payment of interest due, a payment to reduce the amount of principal owed and an escrow fund contribution used to pay property taxes and hazard insurance premiums. Some loans may include an additional charge for mortgage insurance. The interest covers the amount unpaid accrued during the previous month. The principal amortizes the amount of the loan during the loan term.

Counteroffer. Seller's response to an unacceptable offer from a prospective buyer. Generally, a counteroffer is made to raise the sales price closer to the original asking price. Through a series of such counteroffers, buyer and seller negotiate the eventual terms of the sale.

Deed of trust. Contract that pledges the home as security on the mortgage loan. It allows the property to be sold by a trustee if the borrower defaults. Sales proceeds are used to repay the loan with back interest and foreclosure costs.

Depreciation. Decrease in value of a home over time (see also *appreciation*).

Down payment. Difference between the cost of the home and the amount of the mortgage loan(s). This difference must be paid in cash by the buyer at the closing.

Duplex. Housing structure containing two separate dwelling units (a three-unit building is a triplex). Each unit has its own entrance, kitchen and bath facilities.

Earnest money. Money deposited by the buyer to back up an offer to purchase and usually held by a third party, such as a title company. A sales, or earnest money, contract is used to convey the offer. Earnest money may be forfeited if the buyer decides against the purchase after the seller signs the sales contract.

Equity. Difference between the market value of the home and the amount owed on the mortgage loan. Equity represents the value of the owner's interest in the home.

Exclusive right to sell. Prevalent type of listing contract in which the broker earns a commission no matter who finds a buyer during the contract term.

Federal Housing Administration (FHA). A federal agency that insures home mortgage loans. Loans insured by FHA allow the buyer to borrow a higher percentage of the cost of the home, thereby reducing the down payment. An FHA-insured loan has an upper limit that varies by locality.

Financing. Funds necessary to purchase a home. Financing includes all mortgage loans plus any down payment made by the buyer.

Fixed-rate loan. Mortgage loan with an unchanging interest rate during the life of the loan. The portion of the monthly payment devoted to interest and principal reduction does not change over time, although the escrow payment may vary from one year to the next because of changes in taxes and insurance.

Home Equity Loan. A second mortgage loan taken out to raise cash or refinance an existing non-mortgage debt. A home equity loan increases the mortgage debt outstanding and reduces the homeowners equity. Texas law limits total mortgage debt to no more than 80 percent of value when a home equity loan is used.

Homestead Exemption. A reduction in the assessed value of a property for ad valorem tax purposes when that property is used as a principal residence. The amount of exemption is determined by local taxing authorities. A homeowner must apply for the exemption at the local appraisal district office.

Improvements. Generally, anything that adds value to a site, such as a building or landscaping. For income tax purposes, an improvement is an addition to a house or upgrade of an existing feature. The costs of such improvements can be added to the tax basis of the home for the purpose of calculating taxable gain at resale.

Lease-purchase option. Right to buy a home at a given price included in a lease to rent that home. It is often used as an interim strategy to sell homes when markets are slow. It may offer prospective homebuyers a way to accumulate a down payment if the lease applies a portion of rent to the purchase.

Listing contract. Agreement between a seller and a broker giving the broker the right to claim a commission (payable by the seller) if a buyer is found during the term of the contract.

Loan-to-value ratio. Amount of the mortgage loan divided by the appraised value of the home or the sales price, whichever is lower. Loan-to-value ratio is one criterion used by lenders to indicate the risk associated with a loan. In general, loans with a ratio greater than .80 must be insured.

Market analysis. Service offered by many real estate brokers. The analysis examines recent sales of homes similar to the home being listed, using the results to estimate an offering price for the home.

Maturity (term). When describing a loan, the period during which the loan is designed to amortize principal. By the end of the term, the entire principal will have been retired. Most mortgage loans have maturities of 25 or 30 years, but shorter terms have become popular.

Mortgage commitment. Lender's pledge to provide a mortgage loan, on approval of the loan application, at a specified interest rate. In general, lenders may "lock in" an interest rate at the time of application.

Mortgage insurance. Insurance policy that protects the lender against default on the loan by the borrower. Insurance allows the lender to provide a loan at a higher loan-to-value ratio than would be possible otherwise. This reduces the amount of any down payment required. Not to be confused with mortgage life insurance, which insures the loan against nonpayment resulting from death of the borrower.

Mortgage note. Legal agreement that obligates the borrower to repay the loan principal according to a specified method. The note describes the terms of the loan and sets out the requirements that must be met by the borrower.

Multiple Listing Service (MLS). Cooperative arrangement among real estate brokers allowing any member of the service to sell any property listed on the service. Greatly expands the exposure of properties listed while allowing buyers access to the greater market through any member broker.

Private Mortgage Insurance (PMI). Similar to FHA insurance, the policy pays benefits to the lender if the borrower defaults on the loan. PMI allows lenders to make higher ratio loans, thereby reducing the down payment. Unlike FHA, however, the amount of a privately insured loan has no legal limit.

Points. Also called *discount points*. Charges attached to a mortgage loan to increase its profitability to the lender. Each point charged requires a cash payment at closing of 1 percent of the loan principal. Becomes an integral part of the pricing of a loan, such as "8.5 percent plus 2 points," meaning a loan at 8.5 percent interest with 2 points paid at closing.

Prepayment. Paying back all or a portion of principal before it is due. Most mortgage contracts have a clause that allows borrowers to prepay their mortgage loan, although in some cases a penalty may be involved.

Prequalifying. Process of estimating how much money the buyer may borrow based on income, assets and current debts. When submitting a loan application, the borrower knows how much money is needed to purchase the home. At prequalifying, the borrower wants to know the largest loan he or she may be able to qualify for and, thereby, the maximum-priced home the buyer can afford.

Principal. Amount of money owed, at any point in time, on a loan. For most mortgage loans, the monthly payment includes a portion that gradually reduces the principal through *amortization*. When a loan is paid prematurely, the principal, plus any interest accrued since the last payment, must be paid.

Prorations. At closing, certain expenses are allocated between buyer and seller based on how many days of the year have occurred before the date of closing. Expenses paid in advance are prorated and paid to the seller, while expenses paid in arrears are prorated and paid the buyer.

Realtor®. A real estate professional who subscribes to a strict code of ethics as a member of the local and state boards or associations and of the National Association of Realtors®.

Refinancing. Basically, this changes the way a home is financed without selling it. Most often, refinancing involves replacing an existing mortgage loan with a new one with more favorable terms. Refinancing could be used to finance a home improvement.

Reverse Mortgage. A special type of mortgage loan intended for older homeowners. A homeowner may receive regular monthly income from the lender in exchange for a mortgage on the home. The debt is eventually satisfied through proceeds from sale of the home when the borrower no longer occupies it.

Seller financing. Loan or loans advanced by the seller to make a sale. The seller may loan all funds to the buyer or merely a portion of the funds in conjunction with other debt. Usually, the seller receives a mortgage of some type to secure the loan.

Settlement statement. Accurate estimate of all expenses paid at closing. In general, the statement is provided to the buyer and seller shortly before the closing so that they can arrive prepared to provide a certified check for the appropriate amounts.

Title insurance. Policy that insures the buyer against legal claims to the title or some other ownership interest in the property purchased. Title policies are issued based on a search of the deed records of the property to ensure that the seller has good title (no other persons may claim an interest in the property). Title insurance is required of any property financed through a lender.

Veterans Administration (VA). Federal agency that makes mortgage loans to eligible veterans. Generally requires a lower down payment than conventional loans. In some cases, no down payment is required.

Warranty deed. Legal instrument that conveys ownership to the buyer. The deed warrants, or guarantees, that the seller has good title and that all interests are being transferred to the seller. A special warranty deed is a bit weaker because the seller warrants only that the title being transferred is as good as that received by the seller when the property was acquired.

publication guide

Most publications are available for free in pdf format at www.recenter.tamu.edu. Adobe Acrobat is required for viewing.

Brokerage

English-Spanish Real Estate Glossary Booklet 864, $5

"Seller (Not Broker) Selects Buyer: Whose Offer Must Seller Accept?" Reprint 1025, $2.50

"Closing Costs: How Much and Who Pays?" Reprint 1094, $2.50

"Selling Real Property 'As Is'" Reprint 1303, $2.50

"Disclosing Stigma'" Reprint 1465, $2.50

Deeds and Titles

"Living with Deed Restrictions" Reprint 410, $2.50

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