Real Estate

YOUR HOME | YOUR LIFE

Financing Options

Getting pre-approved for a mortgage is often one of the first steps you take when deciding to purchase a home.

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There are a lot of financing options out there and it can get confusing quickly. Here's a rundown of some of the most common types of mortgages out there and what you need to know about each one.

CONVENTIONAL LOANS

Conventional loans are mortgages that are not insured or guaranteed by the federal government. These are usually fixed-rate mortgages and, because they have stricter requirements, are usually some of the hardest to qualify for. Conventional loans typically require a bigger down payment, a higher credit score, lower debt-to-income ratios and could also require private mortgage insurance.

The upside is that these loans are usually less expensive than the loans guaranteed by the government.

FEDERAL HOUSING ADMINISTRATION LOANS

The Federal Housing Administration also provides several mortgage choices. Typically, these have lower down payment requirements and are easier to get than conventional loans. These are great choices for first-time home buyers because they have lower up-front cost and less stringent credit requirements. Down payments on FHA loans can be as little as 3.5% of the home's purchase price.

That said, FHA loans require mortgage insurance to protect the lender should the borrower default, die or is otherwise unable to meet the obligations of the mortgage.

VETERANS AFFAIRS LOANS

FHA isn't the only government agency that guarantees loans. The Department of Veterans Affairs guarantees some mortgages to allow veterans to obtain home loans with favorable terms, sometimes even without a down payment. Like FHA loans, these loans are easier to qualify for than conventional loans for qualified buyers.

FLOATING-RATE MORTGAGES

Also called adjustable rate mortgages or interest-only mortgages, these loans are the most help to first-time home buyers or to buyers to expect their incomes to rise substantially. As a borrower, you usually get a lower introductory rate for the first few years of the loan. That means you can qualify for more money than if you tried to get another kind of loan. These loans can be risky if your income doesn't grow as fast as your interest rate rises.

Types of Insurance

Once you've found your perfect home, you need to protect it.

There are lots of different homeowners policies out there, each for the kind of home you purchase. There are policies for single-family homes, condos and more. Keep reading to learn more about each type of policy.

HO-1 INSURANCE

This is your basic homeowners policy. It covers your home, any attached structures such as garages, appliances and some features of your home. It's a named perils policy. That means it covers you in specific situations, which may include damage from vehicles, explosions, fire and lightning, hail and windstorms, riots, smoke, theft, vandalism and even volcanic eruptions.

HO-2 INSURANCE

HO-2 policies may also be called a broad form. This covers your home and your personal belongings — most of the time no matter where they are. They may include liability coverage. Like an HO-1 policy, HO-2 insurance covers named perils. They may also include accidental discharge or overflow of water or steam; tearing apart, burning and cracking from some household systems; freezing of pipes and heating and air conditioning systems; sudden and accidental damage from electrical currents; a falling object; or weight from ice, snow or sleet.

HO-3 INSURANCE

The most common type of homeowners is the HO-3 special form policy. It covers your home, personal property, liability and additional living expenses and medical payments.

The perils it covers generally exclude defective construction or maintenance; foundation issues; government actions; pet or animal damage; pollution and corrosion; theft, vandalism and frozen pipes in vacant houses; wear and tear; flood, earth movement; war; nuclear hazard; intentional loss; neglect; mold, fungus or rot; power failure; ordinance or law; mechanical breakdown; smog, rust or corrosion; birds, rodents and other creatures; and any animals owned by the insured.

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HO-4 INSURANCE

These policies are commonly called renters insurance. You can get these when you're renting property and want to cover your personal belongings and get liability and additional living expenses. Renters insurance policies are usually named perils policies that cover events covered by HO-1 and other policies.

HO-5 INSURANCE

This is the most comprehensive policy available and covers your home, personal belongings, liability, additional living expenses and medical payments for others. They can also have higher limits for things such as jewelry and are recommended if you have high-value items. These policies protect you from anything not specifically excluded in your policy. Common exclusions are things like earth movement, government actions or laws, mold, nuclear hazards, war and more.

HO-6 INSURANCE

HO-6 insurance is for condo owners and covers everything inside your unit, personal liability and additional living expenses. They also usually include dwelling coverage. Condo homeowners associations usually have their own policies that cover the common areas, grounds and external parts of the building. The owners in the building help pay the association's fees as part of their HOA fees.

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Renovation Projects That Pay

If you've spent the pandemic looking around your home and deciding you need something different, you might be pondering a move up.

To maximize what you get for your home, you might be pondering a few renovation projects. Here are the projects that net you the biggest return on your investment according to HGTV.

LANDSCAPING

The average. Homeowner spends about $4,000 on landscaping, the American Nursery Landscape Association says, and HGTV says your average return is 100%. Add new sod to the front yard and pick native flowering plants for a pop of color at the front of the house. Nix overgrown shrubbery and mix the heights of foliage for a dramatic effect.

EXTERIOR IMPROVEMENTS

New vinyl siding, paint and updating the front entry will run you a little more than $7,000 and you'll get about 95% of it back. Use paint color cards to choose color combinations.

Make sure you test for lead before painting or sanding if your home was built before 1978. It could have lead in the paint, which can be harmful to humans.

ATTIC BEDROOM CONVERSION

Got room upstairs? HGTV says it will cost you around $40,000, but you'll get about 94% of it back. You need to make sure there's plenty of insulation to lower your utility bills and that your existing HVAC can handle the load.

MAJOR KITCHEN REMODEL

The kitchen is the heart of the home and it will run you about $45,000 for a major renovation that covers new cabinets, an island, countertops, sink, appliances and flooring. HGTV suggests removing over-counter cabinets and making countertops work for you by creating an eating bar. Stick with neutral colors to get the most bang for your buck.

REPLACEMENT WINDOWS

This job will cost you around $10,000 and you'll get around 90% of that back. New windows can make your home more efficient and save on utility bills for either you or your home's new owners. Side note: You may not recoup that much in hotter climates. In Las Vegas, for instance, you'll only get around 60% of your investment back.

LIVING ROOM UPDATES

Giving your living room a facelift with new decor including light switches, outlet covers, floor registers and more will cost you about $2,000. You should expect to get about 60% of that back. If you're following up this renovation with a sale, stage your home by moving excess furniture and clutter to storage.

Navigating the Rental Market

It's not just real estate for sale that's red hot right now. Rentals are also hot commodities in most of the country.

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Here's how to find the right home for your family that fits your lifestyle and your budget.

ASK AN AGENT

Real estate agents aren't just for buying, they can help you find a place to rent, too. Agents can help save you time and headache in your rental search by tracking down properties and landlords and even perhaps find properties you wouldn't have found on your own. They can also help you understand any contracts you'll have to sign on your property.

MOVING TO A NEW CITY

Rentals can be especially valuable if you're moving to a new city and you don't want to sink all your money into a home in a neighborhood you're not sure you'll like. Before you move, start digging into your housing options at least a couple of months. Get a good idea of what you're looking for and narrow down the neighborhoods you're looking at. Make a wish list and use a rental agent.

WHAT YOU NEED

You should also be prepared before you start getting ready to make offers. Bring your proof of income — if you're moving for a new job, you may need a letter stating what your new pay rate will be — along with bank statements for the past few months.

AVOID SCAMS

Avoid red flags in your rental situation. Some signs that you might be in a scam are:

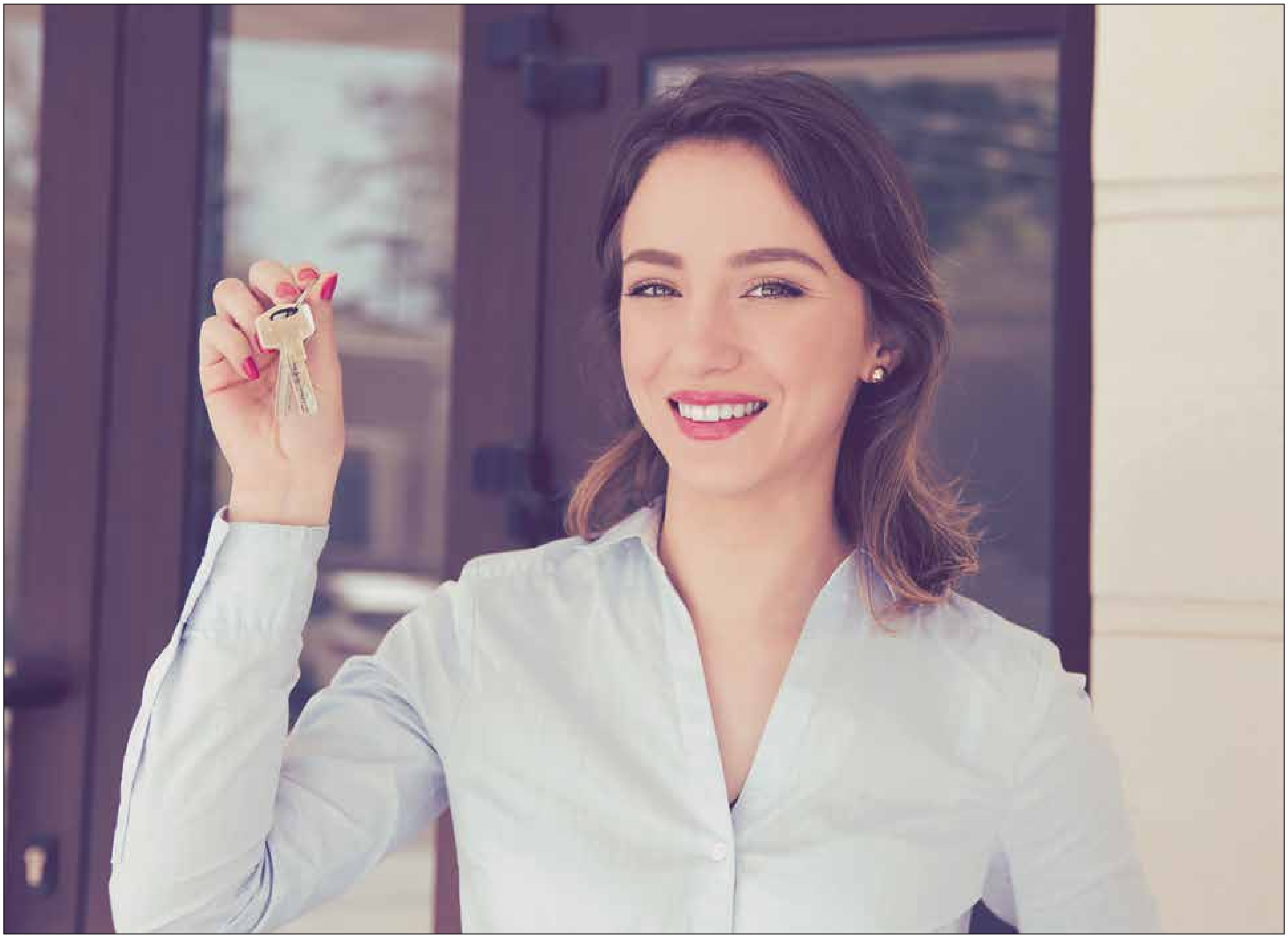
- High pressure to make a quick decision.
- Asking for a large upfront fee or security deposit.
- Not being able to show you the property.
- If landlords provide you unreliable contact information.
- Are willing to skip credit or background checks.
- Won't give you the address of the rental unit.

Always visit the apartment before you put down any money and inspect it inside and out. Deal with landlords and agents that are local and read the lease and any other contracts carefully.

Don't wire funds or give out financial information, and be wary of rent that's too good to be true.

Buying Investment Property

Real estate has a reputation for producing some of the wealthiest people, and many are drawn to the hot market right now.



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But before you drop hundreds of thousands of dollars on investment property, make sure you know what you're doing.

BEING A LANDLORD

Think hard about if you want to be a landlord. That not only involves finding the right property, but the right tenants and taking care of maintenance issues. You could hire a property manager, but that will take a bite out of your profits.

Many property owners make their own repairs to save money and keep more of their own profits.

WATCH OUT FOR DEBT

When you're looking to buy your first investment property, you should take care to avoid debt.

Investment property mortgages typically have more stringent requirements, meaning your debt-to-income ratio can't be as high as it could be for a family home. You also want to have plenty of cash on hand for contingencies.

GET A DOWN PAYMENT

In addition to a lower debt-to-income ratio, you will also have to have a larger down payment than you would for a family home. Most banks and lenders will require at least a 20% down payment because mortgage insurance isn't available on rental properties. You'll also need a higher credit score than you would when buying your own home. The lender may also take a closer look at your employment history and income and may even want to see prior experience as landlord.

INVEST IN INSURANCE

Your new investment property will need insurance to protect it. You should get policies to cover property damage, lost rental income and liability protection in case a tenant or a visitor suffers an injury as result of property maintenance issues. Standard homeowners may not cover losses incurred while the home is rented out.

CONSIDER FIXER-UPPERS WITH CAUTION

You should look at low-cost homes for your investment property, but a fixer-upper could eat up all your cash. Your best bet is to look for a home that is priced below market value and needs just minor repairs. Look for a home in an up-and-coming neighborhood.

It's important to be realistic with your expectations and don't look for an immediate payoff.

Downsizing Considerations

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Once the kids are out of the house, you may start thinking about downsizing and cashing out some of the equity in your home.

Going smaller doesn't have be painful. Keep reading for tips on how to downsize and find the right place for your lifestyle.

START THE DECLUTTERING PROCESS

A general rule of thumb according to Rocket Mortgage is to start at least three months before you plan to move. Find a balance and work through your possessions room by room. There are several methods of decluttering you can use, but remember that there's no right way to declutter. Use a way that works for you.

MEASURE OUT YOUR NEW SPACE

You need to know the square footage and shape of the rooms you're going to move into in order to know what items of furniture you need to keep and what can go. If you don't have measurements, just look at general decluttering and get rid of items you absolutely know you won't need. Bear in mind that your current furniture might not fit in your space. Don't try to squeeze your giant furniture into a tiny space. Instead, make thoughtful choices about what you can take.

QUESTIONS TO ASK YOURSELF

Understanding why you want to downsize and what lifestyle you want to live can help you when decluttering in preparation for downsizing. Some suggested questions from Rocket Mortgage include:

- What are your top reasons for wanting to downsize?
- What opportunities will downsizing create?
- What will you miss the most about your old home?
- Are there new hobbies or activities that you'd like to explore?
- What are you most excited about in downsizing?
- What are you most nervous about?
- What is the first thing you want to do when you're settled into your new home?

Set your goals before you start decluttering to help you more thoroughly understand what you should keep and what needs to go.

WHAT TO DO WITH SENTIMENTAL ITEMS

You can't take it all with you. For items that have a special meaning, consider passing them on the friends and family. Schedule pick-up times at least a week or two before you move.

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Finding a Moving Company

You've found the perfect place, decluttered and sorted, and now it's time to move in. Here's how to find reputable movers to do the job.

GET REFERRALS

Start by asking friends, family and coworkers if they can recommend a moving company. If you're moving for a new job, your new employer may be able to connect you with a reputable company. You can also ask your real estate agent. Once you have a list, follow the rules of threes. Don't grab the first estimate you get. Instead, ask at least three companies and never take one that won't give you an in-person estimate.

WATCH FOR RED FLAGS

Most reputable companies won't ask for a cash deposit before you move. Moving.com also warns you to be on the look out for movers that show up late or can't answer your questions. Also, avoid companies that show up in a rented van. A good moving company will have its own equipment.

You should also check for a U.S. Department of Transportation number and a license. Run the company through state and local consumer affairs agencies to check for other complaints, and check with the Better Business Bureau. Ask to see their insurance paperwork and make sure you know what you're covered for in case the worst should happen to your worldly possessions. Any irreplaceable items should stay with you during the move, just to be safe.

PROFESSIONAL ACCREDITATIONS

In addition to the DOT number, you should also look for trade association certifications, Moving.com says. The site is run by one such organization, the American Moving and Storage Association, and they offer a ProMover certification. Look for their logo on your mover's website or paperwork.

VERIFY THE ADDRESS

Ask for the mover's business card or pull up their website and look up the address listed online.

Make sure the company is listed and registered under that address and be wary of any companies that are listed in a residence.